S. Hrg. 99-942

SITUATION IN MEXICO

HEARINGS

BEFORE THE

SUBCOMMITTEE ON
WESTERN HEMISPHERE AFFAIRS

OF THE

COMMITTEE ON FOREIGN RELATIONS
UNITED STATES SENATE

NINETY-NINTH CONGRESS

SECOND SESSION

MAY 13, JUNE 17 AND 26, 1986

Printed for the use of the Committee on Foreign Relations

U.S. GOVERNMENT PRINTING OFFICE
64-274 O WASHINGTON : 1986

For sale by the Superintendent of Documents, Congressional Sales Office
U.S. Government Printing Office, Washington, DC 20402

5381-10

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SITUATION IN MEXICO

TUESDAY, MAY 13, 1986

U.S. SENATE,
SUBCOMMITTEE ON WESTERN HEMISPHERE AFFAIRS,
COMMITTEE ON FOREIGN RELATIONS,
Washington, DC.

The subcommittee met at 10:07 a.m., in room SD-419, Dirksen Senate Office Building, Hon. Jesse Helms (chairman of the subcommittee) presiding.

Present: Senators Helms, Murkowski, Trible, and Pell.

Senator **HELMS**. The subcommittee will come to order.

One of our witnesses is still on the way. But I will have a few comments preliminary to the testimony of our witnesses.

Today, the Subcommittee on Western Hemisphere Affairs begins the first of a series of public hearings on United States relations with Mexico.

Today we will have administration witnesses. In June, we expect to have panels of public witnesses.

Yesterday, the subcommittee held a closed hearing, and a highly interesting one, I might add, to hear secret testimony. I wish the American people could have heard the testimony offered yesterday. Perhaps they will in one form or another as time goes by.

I anticipate that at least one more closed hearing will be necessary because of the enormous volume of material to be discussed.

Because Mexico is our next door neighbor, we have always felt that we have a special relationship. Unfortunately, the word "special" does not necessarily mean that the relationship is always good. What it does mean is that our long, mutual border, some 2,000 miles, binds us together for better or for worse. What affects one of us is bound to affect the other.

Of course we want our relations to be positive and mutually beneficial. Therefore, both countries have an obligation, I think, to understand what is happening in the other.

Mexico has many achievements of which it can be proud. It has achieved a political stability which is unmatched in Latin America. It has achieved a notable amount of economic development. It is known throughout the world for its arts, its music, its architecture. But I hope that the citizens of Mexico understand that the citizens of the United States are deeply concerned about some problems that have developed in recent years. The United States needs to understand these problems because we do not want to be a part of the problem.

We are disturbed because we see a condition of flight from Mexico. We see a flight of capital. We see a flight of workers. We see a flight of drugs. The American people deserve to know why all of this is taking place.

These events are affecting the United States deeply. We can no longer sit back passively. If there is anything the United States can do, we want to help.

But, when we see the flight of capital taking place, we know that a lack of funding is not the problem. We know that billions of dollars have fled from Mexico in the last 3 years. We see Mexican citizens making astonishingly large investments in United States real estate and other ventures. We see large houses and expensive automobiles being purchased here, and large bank deposits, both here and in Switzerland.

I think we have a right to know why.

We need to know whether the massive nationalizations of banks and private industry have anything to do with the lack of investor confidence. We need to know whether massive state intervention in the economy has anything to do with Mexico's poor productivity. We need to know whether Mexico has official policies that discourage foreign investment.

We need to know these things because one way or another, the United States taxpayer will shortly be asked to prop up the Mexican economy.

With the fall in oil prices, Mexico has no way even to keep up the interest on its foreign debt. And, if the truth were known, I doubt that Mexico could meet its obligations even before the oil price fall.

Mexico, in other words, is in a spiral downward.

But, if Mexico should default on its loans to United States banks, there must be no attempt by the United States Treasury to bail out the banks for their bad judgment. I believe that the banks are in good enough shape now to absorb the consequences of the actions of their directors.

When we see the flight of workers across our borders, poor people driven by desperation and hope, to seek jobs illegally in the United States, we know that Mexico is not doing its part for its own people. Mexico's socialized economy is exploiting the Mexican people.

Should that economy collapse entirely, either of its own inefficiency or under pressure from Marxist guerrillas, the flood of refugees into the United States would become intolerable and human misery unbounded.

When we see the flight of drugs, we know not only the degradation which this commerce spreads in our own country, but also the corruption which always accompanies this breakdown in the social order in the producing countries. We know that corruption seldom comes of one kind; that disregard of law in one area begets a general breakdown of freedom.

On April 11, in Mexico, 500 armed drug traffickers massacred 80 peasants who were trying to recover the bodies of four compatriots, murdered the previous day for speaking out against drugs. Only a month before that, 17 policemen were killed by drug traffickers in the same area.

Now, the failure of the United States to eliminate drug trafficking is a sickness in our own society. But, in attempting to combat it here at home, we need the full cooperation of the drug producing countries.

In recent months, we simply have not been getting that cooperation from Mexico.

Finally, I would comment on the surprising reaction to the announcement of these hearings, both from persons in Mexico and some in this country, who have relations with Mexico. There have been strong attempts to thwart these hearings. It has been charged that these hearings are inappropriate and somehow interfere with Mexico's sovereignty.

I reject that.

I have been surprised at the efforts that have been made to get these hearings canceled, and obviously the people in Mexico and in this country don't know me very well.

Such attempts can only come from people who do not understand the processes of free inquiry. The tradition of the United States is that every subject is open to full investigation and discussion, even if it pertains to the highest offices in the land.

In the United States, we apply these standards of freedom to our friends and allies abroad. No one has anything to fear from full scrutiny except those whose deeds and actions cannot bear exposure.

Indeed, I have a feeling that at the root of the problems we have been outlining is the failure of the democratic system in Mexico.

Has the long-term political stability of Mexico been purchased at the price of political freedom? Has the dominance of one party for so long resulted in the breakdown of the checks and balances which any political system must have if it is to counteract corruption, inefficiency, and despotism?

Does the electoral system in Mexico allow people to remove malefactors from office?

Does it allow the people to choose among alternative economic systems to improve their well-being?

These are just some of the questions, and I hope that these and other questions will be answered in the course of these hearings. That is the intent and purpose of our being here today.

I welcome the witnesses who will testify this morning, and I am grateful for their cooperation and participation.

Our first witness will be Hon. Elliott Abrams, Assistant Secretary for Inter-American Affairs of the Department of State. Following him will be William von Raab, Commissioner, U.S. Customs Service; Mr. David L. Westrate, Assistant Administrator for Operations, Drug Enforcement Agency; and Mr. Roger P. Brandemuehl of the Immigration and Naturalization Service.

Mr. Abrams, if you have a statement, you may proceed.

Thank you for coming here this morning.

STATEMENT OF HON. ELLIOTT ABRAMS, ASSISTANT SECRETARY FOR INTER-AMERICAN AFFAIRS, DEPARTMENT OF STATE

Mr. **Abrams**. Thank you, Senator. It is a pleasure to be here.

I would like to submit my full statement for the record, if I could, and would read only parts of it.

Senator **Helms**. That would be fine.

Mr. Abrams. Thank you.

Mr. Chairman, Mexico is going through a period of severe social, economic, and political strain. Under the pressure of falling oil prices and a $100 billion foreign debt, GNP has fallen by almost 5 percent since 1982, and real per capita income has declined over 20 percent.

GNP is expected to decline again this year.

One way of looking at that problem is to say that because of population growth in past years, Mexico needs to create about 900,000 new jobs a year to keep the unemployment rate down, to keep up with the number of young people entering the job market, and it is not doing so.

Mexico's population, which is now 79 million, will exceed 100 million by the year 2000. Part of this population increase consists of young people who are flocking to overcrowded urban centers or moving north, across the border, in search of work.

Those coming north, with few exceptions, do so illegally. The INS reports dramatic increases in apprehensions, up to 1.3 million at last count in 1985 alone.

This situation of illegal immigration will get worse, seriously worse, unless and until Mexico gets its economic house in order sufficiently to meet its own employment needs without exporting workers.

It is hard to exaggerate the stake we have in Mexico's success in dealing with these problems. As I think you noted in your opening statement, Mr. Chairman, our economies are very much intertwined, and our border economies especially so.

Mexico is our third largest trading partner, our largest foreign oil supplier, the largest Latin American market for United States agricultural exports, and the largest source of illegal immigrants to the United States.

We do have a basically positive pattern of relationships in a variety of areas with Mexico. We have a very deep and complex relationship. But the basically positive pattern of relations is being challenged today by a formidable array of problems.

Perhaps the most debilitating and frustrating are those created by narcotics and corruption.

During the 1970's and early 1980's, Mexico's drug eradication program was a model for the world. Through aggressive joint action, Mexico's heroin share of the U.S. market dropped by about half, from 70 to about 35 percent. It was a major accomplishment.

There was a similar accomplishment, similar in significance, in marijuana exports to the United States. But, in the past few years, these positive trends have been reversed and more drugs are being produced in Mexico and sold in the United States.

A new and distressing phenomenon is the growing use of Mexico as a transit point for cocaine destined for the United States market.

Partly as a result of the south Florida task force's success in choking off drug transiting through the Caribbean, fully a third of the cocaine consumed in the United States in 1985 may have come here through Mexico.

The drug trade poses a long-term threat to the political stability and social health of Mexican society that is fully as threatening as the damage the drug trade is having now on Mexico's image and reputation in the United States.

President de la Madrid, Attorney General Garcia, and many other Mexican officials understand this. Some Mexican officials at lower levels, however, have been corrupted by the vast sums of money available to the traffickers, including many officials supposedly engaged in antinarcotic efforts.

We have told the Mexicans in no uncertain terms that we are deeply troubled by the widespread drug-related corruption. We have demonstrated how corrupt officials are undermining the once model eradication program. We have insisted that corruption not be allowed to delay the prosecution of the traffickers responsible for the murder of DEA agent Enrique Camarena in February of last year.

We have taken a number of steps to improve the effectiveness of the eradication program, including aerial spraying of poppy growing areas, the beginning of intensive spraying with a new agricultural spray plane, a fixed-wing plane, which is more efficient than helicopters. Mexicans have also agreed to improvements in the verification program.

DEA has reported significant improvement in the number of fields successfully eradicated.

We have engaged USDA and academic experts in herbicidal eradication programs and assigned additional personnel to the narcotics assistance unit in Mexico.

We are going to maintain a strong monitoring program to assure that the eradication of opium poppy and cannabis gets back on track and stays there.

The Mexican Government knows that our concern is neither shallow nor transitory. I am sure that the Mexican Government recognizes that our concern is not just that drug-related corruption leads to more plentiful, cheaper, and more potent drugs. We are also concerned about the influence the traffickers are beginning to exert within Mexican society.

Mexico's continuing economic difficulties are a second vital source of concern to both governments. There was a near crisis in 1982, you will recall, when Mexico nearly defaulted on external debts. There have been a lot of steps taken since then to restore Mexico's economic stability.

By 1984, Mexico's stabilization program had strengthened its balance of payments, rebuilt foreign exchange reserves, and reduced inflation and the public sector deficit. The society paid a substantial price, however, as unemployment increased and income and investment fell. The shortfall in oil prices has had a significant impact on that as well.

Mexico's economic difficulties are not transitory, in our view. Its remarkably rapid growth during the sixties, seventies, and early eighties was based on import substitution, the discovery of vast amounts of oil in the early seventies and on heavy foreign borrowing. It is quite clear that Mexico cannot depend upon any of these for its future economic growth, for they led to economic inefficiencies, lack of competitiveness in international markets, overdependence on oil exports for foreign revenue, and large-scale capital flight, which you mentioned in your opening remarks.

We recognize that Mexico must, and will, chart its own course on these important economic matters. We hope it proceeds rapidly with the necessary economic reforms. As it does so, Mexico will need the continuing understanding and support of its foreign creditors.

We and other creditors will be in a better position to provide this support as Mexico pursues the structural reforms that experience shows are necessary to create a robust and growing economy.

In this regard, Mexico's planned entry into the GATT is a very good, forward step, for it will bring Mexico into conformity with most of the other significant economies on the world scene.

Efforts to reform Mexico's economy and turn it into a more efficient competitive direction are critical to Mexico's long-run stability and to our own interest in a strong, prosperous, and stable neighbor.

Turning for a moment to the political situation, as you noted, for more than half a century, Mexico has been governed by the PRI, the Institutional Revolutionary Party. Since 1929, the PRI has dominated politics at the Federal and state levels. It encompasses the major elements of Mexican society, including labor, farm workers, the middle class, and business groups.

The PRI has built widespread popular support in Mexico's fundamentally open society through a complex process of consensus, reform, accommodation, and organization. Opposition strength, especially that of the conservative PAN, or National Action Party, is growing. It has yet to challenge the PRI successfully at the national level.

In the July 1985 gubernatorial elections, the PAN mounted particularly strong campaigns in the north, the states of Nuevo Leon and Sonora, the results of which were tarnished by allegations of fraud.

Effective opposition showings have been thwarted by nationwide PRI voting strength and organizational power, by maneuvers to divide the opposition, by extensive use of patronage, and, according to evidence presented by the opposition, by continuing electoral fraud.

Charges of fraud, of course, have raised serious questions about the quality of Mexican democracy, a problem that Mexican leaders are fully aware of. That political friction exists is not surprising. Mexican society is in the midst of an economically difficult time, and tough economic steps remain to be taken.

The society is changing.

Mexico today is an urbanized society, with a sizable and modern industrial sector, but large rural and urban populations remain impoverished.

At the same time, there has been a notable growth of middle class groups, which, ironically enough, are in the forefront of pressures for change. Recent political controversies have stood out sharply against the background of Mexican stability.

Still, it is worth noting that there are no known terrorist or guerrilla groups operating in Mexico, nor any signs that point to the general acceptance of the need for radical change. The parties on the extreme left are weak and divided. Their electoral strength has never exceeded 10 percent of the national vote and has actually declined in recent years.

But, like the official corruption that accompanies the drug traffic, charges of electoral fraud, indeed the very suspicion of electoral fraud, have the potential to trigger a widespread loss of confidence in Mexico's Government.

This, in turn, could severely erode the PRI's ability to govern, and lead to a general crisis of governance.

Many times in history, outside observers have been proven wrong when they have warned of impending catastrophe in Mexican politics. We hope and trust that the proven resiliency and dynamism of the Mexican political system will enable it to weather today's difficulties, as it has done so many times in the past.

In conclusion, I just want to note that we do have this extraordinary border, one of the longest and most open borders in the world, with Mexico. This obviously gives us a vital interest in Mexico's stability and progress.

Mexico is facing difficult times now. It has a severe challenge:

To root out at all levels the cancer of corruption, spawned by illegal narcotics;

To undertake the structural reforms necessary for the long-term growth required to meet the economic and social needs of its growing population;

To accept and adapt to the growing participation within the system of legitimate organized opposition.

These are challenges to Mexico's system as well as for the system.

For the United States, the challenge is no less daunting. If geography makes us neighbors, common sense and self-interest dictate that we respect each other's interests and cooperate to manage problems.

The monumental challenges facing Mexico mean that we cannot afford to take success for granted. We must work more closely than ever with Mexico to manage the many issues of our relationship.

Thank you, Mr. Chairman

[The prepared statement of Mr. Abrams appears in the appendix.]

Senator HELMS. Mr. Secretary, thank you very much.

We will proceed with our other witnesses. The rollcall vote that was just indicated on the clock turned out to be a malfunction. There is no rollcall vote.

We will now hear from the distinguished Commissioner of the U.S. Customs Service, Mr. von Raab.

STATEMENT OF WILLIAM VON RAAB, COMMISSIONER, U.S. CUSTOMS SERVICE, ACCOMPANIED BY WILLIAM LOGAN, REGIONAL COMMISSIONER, SOUTHWEST REGION, U.S. CUSTOMS SERVICE

Mr. VON RAAB. Thank you very much, Senator.

It is a privilege and a pleasure for me to appear before you. This is my first appearance before my most favorite male Senator.

As you all know, Senator Hawkins is also a very good friend of mine. [Laughter.]

The Customs Service, as is well known, is responsible for preventing contraband from crossing our borders. It is in this context that I would like to make a few remarks about our border with Mexico.

As a result of the increased pressure that the Federal and State Governments have put on drug smuggling in the Southeastern United States and the success that has come from that, together with the corruption that is present in law enforcement in Mexico, our Southwest border has become a serious problem of crisis proportions with respect to the trafficking of narcotics across it.

It is estimated at this point that Mexico is now the No. 1 source of heroin and marijuana entering the United States, and over 30 percent of the cocaine smuggled into here is transshipped through Mexico.

The growing crisis on our Southwest border is evidenced by growing corruption in Mexico, increased acts of violence on the border, increased seizures of narcotics, increased presence of Colombian narcotraffickers, and the evidence of a huge increase in cash activity within the financial institutions located in United States border towns.

For example, information from four Texas Federal Reserve branches on currency paid into and received from circulation highlights a significant growth in currency surplus in the region. Especially noteworthy is the fact that in 1985, the San Antonio Federal Reserve currency surplus doubled to almost $1 billion, one of only four Federal Reserve branches to approach or exceed the $1 billion mark.

San Francisco, Jacksonville, and Los Angeles, are the others.

Such an organization like the Valley Chamber of Commerce in the Lower Rio Grande Valley reported that bank deposits in the valley at the end of January 1985, reflected an increase of $719 million over deposits recorded during the same period 1 year before.

The Presidio Bank in Texas is located in a city with a population of only over 5,000 people, and, of those, 3,000 persons are at or below the poverty level. This bank, however, has a cash flow of $7.1 million, making it the sixth largest bank in the entire State of Texas.

There is, to my knowledge, no commercial operation in this area to support such deposits. There are, however, plenty of other operations along this border.

Of the almost 10,000 pounds of cocaine seized in Mexico and southern California since October, one-third has been identified as having been stored in warehouses in downtown Tijuana. The remaining two-thirds was found to have been stockpiled at clandestine airstrips and warehouses in middle and lower Mexico.

I would just characterize the Southwest border as one that is of real concern.

We have, for example, over 760 confirmed land border areas of penetration, and I would ask your permission to submit this set of maps for the record.

Senator Helms. Without objection, it is so ordered.

[The information referred to appears in the appendix.]

Mr. VON RAAB. I have documented 132 stash houses north and south of the border. We have documented over 35 seizures from vessels recently, on the coast, and many, many floating bale recoveries. Very importantly, we have confirmed 31 air border penetration areas and, amazingly enough, over 470 clandestine airstrips either 100 miles north or south of the border.

What this indicates is that the Customs Service, along with its sister agencies, the Border Patrol and DEA, face an incredible job in trying to stem the flow of narcotics across this border.

One of the major factors, in my opinion, is the degree to which we can rely upon law enforcement in Mexico to provide us with information, intelligence, and cooperation that would be necessary for us to mount an effective border campaign.

As long as drug smugglers are free either to return their planes to Mexico and land in a safe haven, or, for that matter, penny ante drug smugglers are free just to quickly rush across the Rio Grande River and find themselves their own safe haven, the United States effort is doomed to failure. There is no way that we can put a line of men and women across an 1,800 mile border as long as drug smugglers would be free to move right back into Mexico and not be prosecuted, or even cared about in this effort.

I have made any number of efforts to try to get the Mexicans to cooperate, even in some cases symbolically. The one that I have discussed in many situations is our effort to get the Mexicans to agree to allow us to fly planes over the northern part of Mexico. And, by the way, we have agreed in principle on our side—they have agreed to nothing—to allow Mexican officers to fly in our planes and to subject ourselves to Mexican air control systems, so that we can identify some of these landing strips and see some of the planes that are being launched for drug sorties into the United States.

We have had no success whatever in getting this kind of cooperation. I think it is a very bad situation there, and I would like to see that that matter would be cleared up.

At the heart of this, in my personal opinion, is just the ingrained corruption in the Mexican law enforcement establishment. I believe that, basically, with all the good intentions of the highest level officials in Mexico, until the corruption at the lower levels of law enforcement are corrected, we are never going to be able to solve this problem.

I am certain that the witneses from DEA will shortly detail to you the horror stories coming out of the murder of the Drug Enforcement agent.

To me, that is, in microcosm, an example of the degree to which the Mexican law enforcement establishment has been corrupted by the drug business that is conducted there.

I have any number of additional anecdotes about corruption that Customs has personally run across in dealing with Mexico, and I would ask your permission to ask Mr. Logan, who is our regional commissioner, from Houston, who is responsible for the entire southwest border, just to go through a few of those.

However, before I close my comments, I would like to say that there is only one ray of hope in this entire exercise, and that is to try to improve law enforcement on the Mexican side. We are certainly trying to put more resources in on our side and are doing that, and will be doing so over the next 3 months.

The Attorney General is working very hard at that. He has had a meeting with his colleagues in Mexico at Cancun, and the Justice Department officials I understand believe that there are some possibilities coming out of that exercise to see the Mexican officials clean up their house.

I am encouraged by the enthusiasm that the Attorney General and the Justice Department have shown. I hope that subsequently I will be encouraged by the response of the Mexican officials to our efforts.

With your permission, I would like to ask Mr. Logan to go over just a few of these anecdotes.

Senator HELMS. Mr. Logan, would you please come forward, sir.

While you are getting seated, I will say to the distinguished Senator from Alaska, Mr. Murkowski, that we had closed hearings yesterday. I would say that we will cover about 50 percent of the information publicly today that we were able to cover yesterday.

However, I am going to do my dead level best to have declassified much of the other information because I think the American people are entitled to it and I think they will be shocked by the situation.

Commissioner von Raab has alluded to the lack of cooperation he is receiving. Of course, we all hope that will improve.

Mr. Logan, are you ready with your specifics? Please take as much time as you need.

Senator MURKOWSKI. I might take this opportunity, Mr. Chairman, to commend you. Although I was not at the closed hearing yesterday, I have had a briefing on its contents. I would certainly agree that I think it behooves us to make public as much of the information as possible. It is certainly startling and revealing, and indicates just how significant and severe the problem has become. The rate of growth of the flow of drugs through Mexico is just absolutely unbelievable.

Senator HELMS. It really is. I thank the Senator.

Mr. LOGAN. Senator, thank you very much for this opportunity.

Senator HELMS. Would you pull the microphone a little closer to you, please.

Mr. LOGAN. Certainly.

Much of this information, or I should say that a good deal of the information we gave to you yesterday in the closed hearing I will not be discussing again. These are simply anecdotes that we feel are public in nature.

The Commissioner will be working with the committee to attempt to release some of the other information that we did obtain.

I would like to do a couple of things, if I may. Some of the sources are directly out of newspapers, and I would like to get into sources that are directly from the law enforcement community, just some of the examples.

There are numerous Mexican sources of information that reported that the Mexican Federal Judicial Police and the DFS, or the Federal Security Police, in Mexico, were directly involved in drug smuggling. There are suspicions that the DFS itself was believed to have been responsible for the recent murder of several judicial agents in Mexico because of a very bad drug deal. That was last month.

The Laredo Daily News reported that the Colombians and Cubans have moved into the Rio Grande Valley as a result of the pressure on south Florida and in California. The Laredo Times is quoted as saying there is strong evidence that the armed Mexican authorities have been crossing the border on a regular basis to provide security for drug operations.

There are numerous, numerous incidents daily of individuals being killed on both sides of the border that are reported by the papers themselves.

There was an incident on April 11, when 500 armed traffickers killed 80 peasants in the State of Oaxaca in Mexico, as a reprisal. The peasants themselves—or they were referred to as peasants in the paper—had come back up to this particular area, about 160 miles south of the capital itself, to recover four bodies that had been killed the day before, and they were massacred by the drug traffickers.

Police records in Mexico indicate that that is the greatest mass slaying they have had in some time in Mexico.

There are numerous—again, I would say numerous, numerous instances reported in the papers daily, both on the Mexican as well as the United States sides of the border.

Our own sources, our own agents, have identified Mexican Customs agents who were involved in smuggling in the Big Ben area, directly involved in the actual smuggling itself.

There is a Mexican Customs facility on one side of this particular area, and no United States facility on the other. That has been documented.

There are, again, reported by sources that we have, various commandantes in several states in Mexico that are actually actively involved in promoting drug trafficking, even so far as to be escorting loads up from the interior into near the border areas themselves.

We have examples that are reported by informants of convoys of vehicles coming up from the interior that are entirely escorted by Mexican Federal Judicial Police, or DFS, or military officials.

Actually, there is not much reason for me to read the rest of this. There are many, many of them.

I live with this daily. It is something that has grown to be a problem that is making me be apprehensive for the safety of the officers that I have in that area.

Again, there are officers killed on both sides of the border, and much of that is being linked to corruption. It is something we are going to have to do something about.

Senator HELMS. Thank you very much.

Again, Frank, I would say that I know you will read the testimony, the transcript of the testimony of all of the witnesses yesterday. The details were shocking to me, and I thought I knew a considerable amount about it.

Let me ask you this, Mr. von Raab. Do you have one of these sets of maps before you?

Mr. VON RAAB. Yes, sir.

Senator HELMS. I think I know what a "stash house" is, and we will be referring to it later.

But, just for the record, just what is a "stash house?"

Mr. von Raab. I guess in more civilized parlance you could call it a drug warehouse.

Senator Helms. These are not just little tiny places, are they?

Mr. von Raab. Well, in some cases they may be tiny places; but in others, they may be very, very fine haciendas, that have a special room for this purpose The characteristics run from the lowliest hut to the most well appointed hacienda.

Senator Helms. The map says there are 132 of those.

Mr. von Raab. That's right.

They are basically staging areas, waiting for us to be off our guard, or waiting for one of these federally escorted convoys to bring the stuff up.

Senator Helms. A "floating bale" recovery—is that what happened when they saw the law approaching and they threw the goods overboard?

Mr. von Raab. That's right. We find them floating in the sea.

Senator Helms. That's principally marijuana?

Mr. von Raab. Right.

Senator Helms. You had 35 seizures from vessels.

Now, would you go over one more time, just for emphasis, how many landing strips do you know about?

Mr. von Raab. We know of 472 landing strips on both sides of the border.

Senator Helms. What kind of surveillance do we have technologically?

Mr. von Raab. Sorry, sir?

Senator Helms. What kind of surveillance do we have? Can you spot planes going back and forth?

Mr. von Raab. We don't have much surveillance there.

We use FAA radar, which is ground control radar. Therefore, those areas that FAA radar covers we cover. As far as the rest of the border is concerned, we have very little detection capability, which is the term of art that is used for surveillance.

Senator Helms. By the way, just for the record, I don't recall if Mr. Logan was fully identified.

This is Mr. Logan, the Houston Regional Customs Director. In other words, he is on the firing line.

Now, Mr. Westrate, thank you for coming again this morning.

We enjoyed your testimony yesterday—well, I didn't really enjoy it, but I was very interested in and intrigued by it.

You may proceed with your statement.

STATEMENT OF DAVID L. WESTRATE, ASSISTANT ADMINISTRATOR FOR OPERATIONS, DRUG ENFORCEMENT ADMINISTRATION, DEPARTMENT OF JUSTICE

Mr. Westrate. Thank you, Chairman Helms.

We appreciate the opportunity to appear again this morning before the committee to discuss DEA's enforcement programs in relation to Mexico.

With your permission, I also will summarize my statement in more brief form.

Mexico is becoming increasingly prominent as a source of supply for heroin and marijuana, a transshipment country for cocaine, and the site of clandestine, dangerous drug laboratory activity.

Mexico continues to maintain its position as a major source of heroin to the United States, supplying approximately 32 percent of the heroin available in the United States in 1984, and 38 percent in the first 9 months of 1985.

This can be attributed to several factors, such as improved drug cultivation techniques, recent favorable weather conditions for poppy cultivation, and the attraction to wages by campesinos who cannot find work in Mexico's failing economy.

The spread of Mexican black tar heroin into many areas of the United States is the most significant change in the trafficking of Mexican sourced heroin.

Black tar heroin is present in 27 States in the United States now. Purity levels have been analyzed as high as 93 percent, with 60 to 70 percent purity common. There are significant increased in heroin-related hospital emergencies in major cities where black tar heroin has been found.

The DEA estimates that Mexico now accounts for 32 percent of the total amount of marijuana imported into the United States, providing an estimated 3,000 to 3,500 metric tons during 1985.

Mexico is a transit country for smugglers who transport by air bulk quantities of cocaine which originated in South America and are bound for distribution in the United States.

Major Colombian cocaine traffickers have been using Mexico as an alternative to the Caribbean to transship large quantities of cocaine into the United States.

As noted by Commissioner von Raab, we believe this change in routes is a direct result of the enforcement pressures that have been placed on the Southeast United States and the Caribbean.

A number of Medellin based Colombian traffickers are operating in Mexico, independent of Mexican traffickers. One major trafficker continues to actively coordinate cocaine shipments through Mexico, and is believed to own a lab in Brazil capable of producing 500 kilos of cocaine hydrochloride per week.

There are, however, a number of major Mexican cocaine traffickers who, upon delivery of the cocaine in Mexico from the Colombians, provide the final smuggling and distribution link. The Juan Pineda-Trinidad organization is thoroughly Mexican and may be an outgrowth of the Miguel Felix-Gallardo group. The cocaine laboratory and 100 kilos of cocaine seized in Guadalajara, Mexico, in February 1985, were part of the Pineda-Trinidad operation.

The Trinidad organization has connections to many significant Mexican drug traffickers.

Current information reflects that Miguel Felix-Gallardo continues to be involved in smuggling multihundred kilo quantities of cocaine despite his fugitive status in Mexico. He is wanted in Mexico for his involvement in the slaying of DEA Special Agent Enrique Camarena, and has been indicted in Phoenix, AZ, on continuing criminal enterprise violations.

It appears that the conversion of cocaine base into cocaine hydrochloride in Mexico is increasing. The lab operators are finding it more difficult to buy essential chemicals in other countries. They are apparently having success in Mexico. Ether, benzene, and acetone are legitimately manufactured in Mexico, as in many countries, including the United States.

Cocaine seizure statistics in Mexico show a sharp increase. The amount of cocaine seized in Mexico increased from 444 kilograms in 1984 to more than 2,500 kilos in 1985.

Since 1983, as evidenced by seizure data, the amount of cocaine smuggled across the United States-Mexican border has increased.

While the amount of cocaine seized nearly doubled from 1983 to 1984, more than four times as much cocaine was seized in 1985 as compared to 1984. The average size seizure along the Southwest border increased from less than 1 kilo to more than 3 kilos in 1985.

The number of reported seizures of clandestinely manufactured dangerous drugs along the Mexico-United States border increased steadily in 1985. However, the quantities involved declined sharply.

This decline can partially be attributed to enforcement activity within Mexico. In July 1985, the Mexican Federal Judicial Police seized a clandestine methamphetamine laboratory near Tijuana, which was capable of producing multimillion dosage units monthly. The ultimate wholesale purchasers for the methamphetamine were associated with the Hells Angels motorcycle gang.

In addition, significant arrests were made in Mexico of traffickers involved in the diversion of legitimately manufactured controlled pharmaceuticals.

Operation Vanguard is the bilateral effort to assist the Government of Mexico's Eradication Program for both opium poppy and cannabis through the use of aerial reconnaissance to detect illicit cultivation and subsequently to verify their destruction.

During the first 2 months of 1986, total flight hours in this program were up and the Verification Program was generating encouraging information on the effectiveness of the eradication efforts. This Verification Program gives us confidence that the eradication statistics are reliable and that we have seen a turnaround in this most important program in Mexico.

In April 1983, DEA initiated Operation Padrino to investigate and immobilize what was thought to be a major heroin distribution network. It was soon determined that Juan Ramon Matta Ballesteros, a well-documented international cocaine drug trafficker from Honduras, had joined forces with Miguel Angel Felix Gallardo, a well-known heroin trafficker, for the purpose of distributing cocaine into the United States.

As of November 1985 the overall cocaine seized from the organization totaled more than 5,000 pounds, with a wholesale value of over $121 million.

DEA special agent Enrique Camarena was abducted and murdered on February 7, 1985, in Mexico. The investigation into special agent Camarena's death is still ongoing in Mexico, and is the subject of continued high-level meetings.

DEA and the FBI are conducting an investigation in the United States, looking toward U.S. indictments of those involved for violations of U.S. law.

In the past year, the Attorneys General of both countries have met twice and President Reagan and President de la Madrid have discussed narcotics matters at their meetings. The Mexican-American law enforcement summit was last held in April 1986 in Cancun, Mexico, as referenced by Commissioner von Raab.

Initiatives on eradication, trafficking, fugitives, mutual legal assistance, and other matters were proposed at the summit and agreed to by the Attorneys General. This process will continue and specific timeframes for progress have been established.

We are hopeful that progress will be made as a result of this framework.

DEA believes that the drug enforcement relationship between the United States and Mexico is on firmer ground as a result of the initiatives of Attorney General Meese in this area. The Attorneys General and Presidents of both countries have reaffirmed their goals and drug suppression efforts.

The Drug Enforcement Administration hopes that in the coming months and years, bilateral agreements with Mexico will prove to be effective in upgrading drug law enforcement in Mexico, and turn around this increased flow of heroin, marijuana, and cocaine that we are seeing today.

Mr. Chairman, I appreciate the subcommittee's interest in Mexican-United States relations regarding drug law enforcement, and I, of course, will be pleased to answer any questions which you may have.

[The prepared statement of Mr. Westrate appears in the appendix.]

Senator **Helms**. Thank you very much.

Let me say for those who are in the audience that you have just heard from Mr. David L. Westrate, Assistant Administrator for Operations of the Drug Enforcement Agency.

Our fourth and concluding witness, after which there will be questions, will be Mr. Brandemuehl of the Immigration and Naturalization Service.

Both of these gentlemen were with us yesterday afternoon.

We welcome your testimony this morning.

You may proceed.

STATEMENT OF ROGER P. BRANDEMUEHL, ASSISTANT COMMISSIONER FOR BORDER PATROL, U.S. IMMIGRATION AND NATURALIZATION SERVICE

Mr. **Brandemuehl**. Thank you, Mr. Chairman and members of the committee.

I do not have a prepared statement.

However, I would like to make a brief comment regarding INS and particularly the Border Patrol's perspective regarding illegal aliens and drug trafficking across our southern border, as well as other problems that we encounter down there.

Never before in the history of this Nation have our borders been so severely tested and our immigration laws so abused.

In the past few years, our apprehension figures have soared. Last year, we apprehended a record of 1.2 million illegal aliens. This year, we are estimating that we will be apprehending 1.8 million illegal aliens. That is a 50-percent increase over our record year last year. It is very alarming.

Actually, we are apprehending one illegal alien now every 20 seconds, 24 hours a day, 365 days a year.

Even though the majority of our clientele comes from Mexico, the problem is not just confined to Mexico. The Border Patrol is also experiencing a sharp increase in non-Mexican nationals crossing the border.

Border violence is up all along the border. Border bandits continue to prey upon illegal aliens, and more and more crime in our border communities is being attributed to illegal aliens.

Assaults against our agents have become a great concern to us. Last year, there were more than 150 major assaults perpetrated against our agents. That equates to 1 out of every 20 of our agents being assaulted.

It is very alarming to us.

Another phenomenon that is occurring is the increase in narcotics we are encountering. In the last fiscal year, we effected 885 seizures, or a little over 2 seizures a day. This year, in the first 6 months, October through March, we have effected 754 seizures, which is an average of practically 4 a day.

In summation, I firmly believe that there is now, more than ever, the need for a national commitment to a visible, strong, and effective border enforcement to stem the tide of humanity lapping at our borders and the attendant problems that this brings, such as the blight of drug trafficking and other criminal elements.

The problem of controlling the borders is tough and serious. I join with the rest of my colleagues here in stating that we are giving it the best shot that we can, and we certainly need additional help.

Thank you.

Senator HELMS. Thank you very much.

Senator Murkowski, do you have a statement?

Senator MURKOWSKI. Thank you, Mr. Chairman.

You all will have to excuse me. I have a little hay fever that I thought was leaving me, but it has come back to visit again. I hope it is not permanent.

I have a statement for the record, which I would like to have entered as if read.

Senator HELMS. That will be done.

[The opening statement of Senator Murkowski follows:]

OPENING STATEMENT OF SENATOR MURKOWSKI

Senator MURKOWSKI. Mr. Chairman, I am very supportive of these timely hearings on the situation in Mexico, especially as it regards the problem of drug trafficking. I hope that these hearings will produce much-needed progress in strengthening United States-Mexican cooperation in the important area of narcotics eradication and interdiction.

It is essential that we do more to prevent the massive and destructive inflow of drugs into our country. To do this, however, we need more help from our Mexican neighbors to stop illegal production and trafficking of these drugs in their country. Our overall bilateral relationship is too important to have ill feelings develop over lack of progress in fighting menace that the drug trade presents to both our countries.

I welcome the opportunity to closely examine this situation and thank the distinguished witnesses here today for being here today.

I would also like to commend you for your statement, particularly for its focus on the grim realities associated with the economic plight of Mexico. Their foreign exchange has dropped $200 million since August 1982, and obviously we are facing the realities of a world debt crisis associated with Mexico.

You have indicated many things with regard to the severity of that. But I would like to emphasize that it is my understanding that inflation has averaged 64 percent in 1985, and it may be higher now. The government deficit, as a percentage of gross national product, is twice that of our country. Capital flight, as you have indicated, averaged $1 billion a month in August, and is accelerating. The Mexican economy is creating 500,000 fewer jobs per year than needed to match the population growth. The average income of the top one-fifth of the population is 20 times that of the bottom fifth.

Oil export earnings amount to 70 percent of government revenues, and oil exports are about half what they were this time last year, primarily due to the drop in the oil price. Real wages for blue collar workers have slipped back to a level of nearly 25 years ago.

To all of this we must add substantial allegations of corruption, as our witnesses have indicated, on drug trafficking.

Mr. Chairman, these are the facts. Again, I would request that my entire statement be placed in the record.

I would like to ask Mr. Abrams at this time this question.

If Mexico does not receive, in your opinion, a substantial injection of foreign assistance or if the price of oil does not rise, do you expect Mexico to run out of foreign exchange very soon?

Senator HELMS. Let's give him a moment to think about that.

I will call on Senator Pell first.

Senator PELL. I have no questions, Mr. Chairman, and no statement to make.

Senator HELMS. You have no statement and no questions?

Senator PELL. That's correct.

Senator HELMS. Thank you.

Senator Trible.

Senator TRIBLE. Mr. Chairman, I have no statement, but at the appropriate time, I do have a few questions.

Senator HELMS. Thank you.

When don't we begin with Senator Murkowski's questions, then. We will run on a 10-minute clock for Senators, if that is all right.

Senator MURKOWSKI. Thank you, Mr. Chairman.

I would repeat my question.

Basically, if Mexico does not receive a substantial injection of foreign assistance or the price of oil does not turn around, can we expect Mexico to exhaust its foreign exchange and not be able to meet its debt requirements to the rest of the world?

Mr. ABRAMS. I think it is unlikely, Senator.

Senator MURKOWSKI. You think it is unlikely?

Mr. ABRAMS. Yes.

For one thing, since the period of 1982, Mexico has made every effort to pay both interest and principal on time.

You will remember that, about a year ago, everyone was talking about Castro's proposal that everybody repudiate the debt.

That proposal, which did get a little bit of an echo in Latin America, did not really get an echo in the attitude of the Government of Mexico.

They are negotiating with the private banks and they will clearly need, well, to take a ballpark figure, about $4 billion in new money. But I think one can expect that from a variety of sources they are going to get it—not U.S. Government money, though. I am talking about private sources of money.

So we are not in anything like the kind of situation we were in in 1982, where there was a real crisis, a short-term crisis, in the ability of Mexico to pay its debts.

Senator **Murkowski**. It is my understanding that the Organization of American States recently held their first Inter-American Conference on Drug Trafficking, and there were some 22 countries at that meeting. I think it was in Rio de Janeiro.

Mr. **Abrams**. Right.

Senator **Murkowski**. It was viewed generally by those attending as a success, although the OAS and its member nations I gather joined with the United States rather pointedly in emphasizing Mexico's uncooperativeness in international drug control.

Is that a fair statement?

Mr. **Abrams**. I'm not aware of that.

Ambassador McCormack, who represented us there——

Senator **Murkowski**. I'm sorry, but I can't quite hear you.

Mr. **Abrams**. Sorry.

Ambassador McCormack, the United States Permanent Representative to the OAS represented us there, and he had not said anything to me about any particular focus on Mexico.

Senator **Murkowski**. Well, I will see if I can find a reference to it and bring it to your attention.

Mr. **Abrams**. It is very unlike the OAS to single out any country for criticism. Rightly or wrongly, that is just not the kind of thing you get done there.

Senator **Murkowski**. Well, in your opinion, are they joining with us and the rest of the nations with the same enthusiasm that the other countries are showing in attempting to trying to get a handle on narcotics? Do you have any observation as to what their attitude was at that Inter-American Conference in Rio de Janeiro with regard to drugs?

Mr. **Abrams**. I don't have any observation as to the Mexican attitude in Rio. I would only say that Ambassador McCormack had not indicated to me that there was any kind of criticism of Mexico voiced there.

I think on the overall problem, we have seen a lot of discussions at the level of the President and the Cabinet—I mean in Mexico—especially the President and Attorney General Garcia with us about what to do about their drug problem, and they are doing a variety of things, especially in the area of eradication, which we mentioned earlier.

Mr. Westrate mentioned an apprehension by the Federal Judicial Police in his testimony, and that kind of thing happens.

I do not think they are keeping up with the challenge.

Over the last few years, the growth of drug trafficking in Mexico has been exponential, of drug production and drug trafficking. They have not organized themselves yet to keep up with that.

But I have to say that that is happening in a number of other countries in South America as well.

There are very few countries—Colombia may be actually the only exception—countries which have totally organized themselves for a war against drug trafficking.

This phenomenon has come upon all of us in the last 5 years as a major political and economic problem, in addition to being a moral problem and a health problem.

I would argue that we are not fully organized for it either. If you take a look at the resources that we in the United States dedicate to this problem at this point, it is hard to say that we are doing our share.

Commissioner von Raab mentioned, for example, unmarked landing strips. I notice when he was testifying that he said they were on both sides of the border.

We would be in a better position to criticize Mexico if there were not any on our side of the border. We sure have more resources than they do to clean up our act.

Senator **Murkowski**. Well, Mr. Secretary, I am a little confused, I guess, because of the testimony that I have heard here this morning and the testimony that took place yesterday. It pretty much pointed to Mexico as not being responsive—and I am not necessarily going to quote Commissioner von Raab, but I could, because you heard his statement as well. You seem to indicate that this is just a problem among many countries and that we could all do a better job and the ability to point the finger at any one country is not necessarily in keeping with the facts.

I find that a little difficult to understand from the standpoint of a general reference to your position. Good heavens, if you reflect on the statements made by the Commissioner, why one would come to the conclusion that Mexico is not being responsive.

Mr. **Abrams**. I think I would disagree with your characterization of my testimony.

Senator **Murkowski**. Well, why don't you clarify it for me, then. That's what I would like you to do.

Mr. **Abrams**. I think it is a mixed picture.

Senator **Murkowski**. Well, let's talk about Mexico.

Do you think Mexico is doing a good job, a reasonable job, a poor job, or not an adequate job?

Mr. **Abrams**. Not an adequate job.

Some people are helping us tremendously. In other areas, we run into tremendous corruption, and they are not helping at all.

Senator **Murkowski**. Let me ask this of the panel, and probably mostly of Mr. von Raab.

I am curious to know what efforts have been made to try to get a handle on the problem of money laundering.

You indicated that one of the banks in Texas, the Presidio Bank, had a substantial increase of deposits, that the cash flow was $7.1

million. Now I don't know what you mean here by cash flow, but I assume that is funds coming into the bank at any given period of time.

Don't we have the authority through the Comptroller of the Currency or the Federal Deposit Insurance Corporation to exercise oversight on banks where we suspect money laundering may be occurring?

Don't we have the authority to refuse to allow these banks to continue to be depositors of Federal funds if, indeed, the examination process were to show that they were laundering money? And don't we indeed through the Federal Deposit Insurance Corporation Examiners, or the Comptroller of the Currency Examiners, or the State of Texas Examiners have the capability to review internally the operations of those banks to evaluate for ourselves whether they are laundering?

Mr. **von Raab**. That's right.

All of the statements you have made are accurate.

In addition to that, however, and more importantly from my perspective as the Commissioner of Customs, the Treasury Department, through the Customs Service and the Internal Revenue Service, is responsible for the administration and enforcement of what we call the Bank Secrecy Act. This basically keeps an eye on the movement of cash, either across the border or in and out of U.S. banks.

It is this activity to which I was referring before.

There is an enormous amount of cash moving out of Mexico, a large part of which is obviously the proceeds of drug trafficking.

Just right now, the Customs Service in the southwest border area has over 70 investigations involving illegal movements of cash out of Mexico, or at least into the United States.

Last year, just in Texas alone, we see $17 million of assets of illegal movement of cash—obviously drug related.

There is a task force that is operating, which is staffed by IRS and Customs agents that are investigating illegal movement of cash across that border area.

So, not only are you correct in terms of the normal regulatory agencies that are responsible for keeping an eye on our banks' activities, but also the Treasury Department, through Customs and the Internal Revenue Service, is very active in this area.

Senator **Murkowski**. My time is almost up.

But I cannot understand why, if we have the safeguards and the checks and balances within our banking system, it is not working. Those banks could be subject to fines. Their boards of directors could be held liable.

Do we need additional legislation to address this issue?

Surely it would be confidential information, but the Comptroller of Currency, or the State of Texas, which is chartering the banks, or the FDIC that is insuring the banks, has all the authority necessary, to direct immediate turnabout of any policy that would suggest, as indicated with the Presidio Bank, that this may be the case.

I just fail to understand why it is occurring when there is a mechanism available to stop it.

Mr. VON RAAB. Well, I would not place the blame on the banks themselves. They are in normal business and as long as they fulfill their statutory and regulatory requirements, we don't have a problem with them.

As a matter of fact, the Texas banks have been very cooperative with Customs.

Senator MURKOWSKI. But if you are telling me that a little bank in a town of 5,000 people is the sixth largest bank in Texas in growth of deposits, that is absolutely ridiculous. Who are we kidding?

Mr. VON RAAB. I am not going to defend one bank or attack another bank. I had this experience in Florida once, in which I referred to the Florida banks as "sleazy bankers." I had to spend years to dig out from under that one.

Senator MURKOWSKI. But that is not the line of my questioning.

I know something about the banking business. My question is this: When you go to the Comptroller of the Currency or the FDIC, are they taking appropriate action internally with these banks, in your opinion, or not? Or do you have an opinion?

Mr. VON RAAB. If you would permit, I would ask Mr. Logan to respond to that since this is a regional question and he has a better regional perspective than I.

Mr. LOGAN. That is "passing the question," I think. [Laughter.]

Basically, I think the regulatory agencies do have a handle on it.

We have been working very closely together, especially over the last couple of years, on this.

One of the problems, Senator, very frankly, is that they are regulatory in nature, and it takes——

Senator MURKOWSKI. They are what?

Mr. LOGAN. They are regulatory in nature, and the investigations that are being conducted in those areas are criminal in nature. It takes quite a bit of coordination for the two not to conflict with each other.

Many times a regulatory agency will hold off an action for 5, 6, or 7 months in favor of or for the benefit of a criminal investigation.

Many times, when we want to start a criminal investigation in a particular area, we have to check with that regulatory agency first to see what they have going on.

Senator HELMS. I think what Senator Murkowski is saying is if it waddles and it quacks, it is likely to be a duck.

Senator MURKOWSKI. Precisely.

Thank you, Mr. Chairman.

Senator HELMS. Thank you.

Senator Pell.

Senator PELL. Thank you, Mr. Chairman.

I commend you for holding these hearings to give us a better understanding of conditions to the south of our border.

I would like to follow up on Senator Murkowski's question and ask you what the situation is with regard to the flight of capital from Mexico. Do we have any figures in that regard?

Mr. ABRAMS. Senator, we have rough figures.

We have a rough guess that there is something like $50 billion held by Mexicans living in Mexico in the United States. This is to say that a fair proportion of the money that has gone into Mexico in, say, the last 10 years, from the international community has come back out again in the form of capital flight.

It is also an amount, I mean, the order of magnitude is about half the size of the total Mexican debt, which is $100 billion. And it is the case that if they could get some of that money back, if they could persuade those Mexicans to reinvest that money into Mexico, we would not need to do a lot of the things that now appear necessary in terms of United States, and World Bank and IMF activity with respect to Mexico.

Senator PELL. What you are saying is that maybe approximately $50 billion Mexican dollars are in the United States.

Mr. ABRAMS. Yes.

Senator PELL. What would be the amount of Mexican dollars worldwide?

Mr. ABRAMS. I don't know. We have a better sense of it here than in Switzerland or other places where it might be, such as Panama.

Senator PELL. What would be the annual flight roughly? Would it be about $10 billion?

Mr. ABRAMS. It is less than that. A ballpark figure would be about $6 or $7 billion.

Senator PELL. I would like to ask this of Mr. von Raab.

Is there any way the border could be made secure? If it were made secure, how much would it cost?

Mr. VON RAAB. That is the second most frequent question I receive. The other one usually is how much drugs are you missing.

The border can be made more secure. The Customs Service is putting more agents into the Southwest border. We will be putting several hundred into the Southwest border over the next couple of months. We are putting our manpower where our mouths are, so to speak.

There is an exercise underway at the Treasury Department to take a longer, broader look at the issue of smuggling across the Southwest border for sort of longer term planning purposes.

I would rather not comment on that, not because it is secret or sensitive, but because it is being undertaken at the departmental level.

I can tell you that the border can be made more secure. It should be made more secure.

We are putting additional resources into it.

With your permission, however, I would go back and say as secure as this border may be, we still need to address the issue of corruption in Mexico, because any situation in which you have 1,800 miles of border with any other country cannot be allowed to operate as a safe haven. There is just no way to secure 1,800 miles. You have to be able to rely on the integrity of your neighbors as part of your border strategy.

Senator PELL. How much would it cost to build an Iron Curtain-like fence as some suggest?

Mr. VON RAAB. I am a frequent and vocal critic of the Iron Curtain and I would not even attempt to think about the cost but the concept of putting an iron curtain around the United States. So I respectfully would not like to answer your question.

Senator PELL. Excuse me. I am not advocating it. I am just curious about what those who lightly say it could be done think it would actually cost.

Mr. VON RAAB. I have never seen any figures on that project.

Senator PELL. I understand that a number of helicopters involved in the drug eradication efforts of the last few weeks or months have been lost. What were the numbers involved of helicopters lost and what were the circumstances.

Mr. WESTRATE. Well, sir, I am not sure of the exact numbers, but there were, I think, three helicopters lost as a result of a hurricane several months ago. There have been several crashes. But I think we have to take into consideration the type of flying that is done here.

This is as dangerous flying as there really is. A lot of it is in the mountainous areas. It is flying low to the ground. There have been not an alarming number of crashes, but several. We are looking, with the State Department, at the opportunity to enhance training and to assist the Mexican pilots in this program.

Senator PELL. To be specific, how many helicopters have been lost since the first of the year?

Mr. WESTRATE. Senator, I would have to get that exact figure for you. I don't have it with me this morning.

Mr. ABRAMS. I believe the number is three, Senator.

Senator PELL. Three. Thank you.

And none of those was the result of hostile action or gunfire, anything of that sort?

Mr. WESTRATE. There have been a number of incidents of gunfire received, but I do not believe that any of those resulted in a crash.

Senator PELL. Thank you.

No further questions.

Thank you, Mr. Chairman.

Senator HELMS. Thank you, Senator Pell.

Senator Trible.

Senator TRIBLE. Mr. Chairman, thank you.

I want to thank you for holding these hearings. Mexico, in my judgment, is a ticking time bomb waiting to go off. On virtually every front, Mexico is in very serious trouble. Whether we like it or not, Mexico's problems are our problems.

I would predict that over the next several years this committee will be devoting a large share of its time and energy focusing on our neighbor to the south.

These timely hearings give us a point of departure as we shape our bilateral relations.

Gentlemen, I apologize for coming in late. This is the third hearing that I have attended today and I missed some of your testimony. That is the nature of the Senate. You serve on far too many committees and subcommittees.

Let me focus first on the drug problem.

In the past, Mexico has been a model in drug eradication and enforcement. But today, Mexican production of heroin and marijuana is rising dramatically, and Mexico has become a major trafficker in cocaine. Moreover, from what I hear and what I read, a picture emerges of Mexican indifference and corruption at governmental levels.

How do we respond to this situation?

You painted a picture today in your testimony. You shared your frustrations and your concerns. But I am more concerned about how do we constructively and effectively respond. What is it that we can do?

Can we do something or do we have to just sit back and watch this happen?

Mr. **Westrate**. Well, sir, your characterization of the situation is accurate.

There is increased marijuana, heroin, and cocaine trafficking through that country.

The answer specifically is yes, there are some things that can be done.

The Mexican Eradication Program in particular was a model in years past, and it had the fine result of reducing the flow of heroin and marijuana in particular to the United States to very low levels. We believe that that can be accomplished again.

In the meantime, that program really deteriorated significantly due to a number of factors, one of which was corruption. This fact was recognized early on and has been a subject for the past 2 years of considerable discussion with our Mexican counterparts, led in particular by Ambassador Gavin and by Attorney General Meese.

We believe that the eradication campaign has been turned around and is on the right track again, to include the ability to verify what the eradication campaign is accomplishing and to insure that fields are located and that when they are located, they are sprayed and so forth. So that is encouraging.

The other element that I believe is important would be to enhance our capabilities to react in the United States to the flow of drugs from Mexico.

We know that we can do that.

As Commissioner von Raab has indicated, we are developing plans and initiatives within the Government throughout all concerned agencies to put such a response in place. We believe that that also will have an impact.

On the question of internal investigations in Mexico, I am not certain how much progress we can expect to make in the short term in that area.

Senator **Trible**. I understand that a large measure of responsibility to respond to drug problems is our own, and we have to do that more effectively.

But let us today focus on our Mexican friends because they constitute a very large part of the problem as well, our problem and theirs.

What leverage, Mr. Secretary, do we have, and what can we encourage or influence our Mexican neighbors to do to, one, deal with the corruption that is widespread in their own governments; two, the apparent indifference in dealing with this problem, and the reality of major drug trafficking? How can we encourage them to do more and what can they do? What are the prospects for some progress?

Mr. **Abrams**. I am more optimistic on the eradication front—if we can separate for a moment the eradication of heroin, poppy growing, and growing of marijuana—than I am on, say, the cocaine trafficking front. This is partly because the economic interests of the growers are not that great.

If you have a farmer who is growing marijuana, let's say, his ability to influence the Government is small. I would agree with Mr. Westrate. The Eradication Program is really getting going again, and I think we all have high hopes for that. I think we have reason to be optimistic.

The larger problem is on trafficking and on cocaine, because the amounts of money involved are fantastic. The ability to corrupt officials is, therefore, fantastic.

There I think one thing we can do is give help in the form of, for example, the new fixed-wing aircraft helicopters. Well, the fixed wing actually goes to eradication. But helicopters and training of antinarcotics forces, cooperation—just so that we make sure that on the law enforcement side, whatever we are able to provide in expertise or training is there.

Then there has to be, quite frankly, publicity, for which reason this hearing, though it is not going to be appreciated in Mexico—let's face it—is useful.

Ambassador Gavin, who has done a spectacular job in Mexico City, has said some very frank things about this issue, and they were not much appreciated in Mexico either. It is viewed as an attempt to smear Mexico or to infringe on Mexican sovereignty.

But it is not.

I think we need to make clear, for one thing, that as a country which shares this enormous border with it, we are concerned about the future health and growth of Mexico. Our purpose here is not to call names or throw mud. It is to look toward a better chance in the future.

I think that the Government of Mexico and the people of Mexico need to understand that this is a very serious business, and that the image, the reputation of Mexico in the United States, can be destroyed by this kind of activity.

We need to give government officials there and leaders of society, labor leaders, businessmen, journalists, a sense of how dangerous this is for the future of United States-Mexican relations if they don't get a hold on it.

So I think that the kind of speeches that Ambassador Gavin has made in Mexico City during his time there and this kind of hearing—and this is a novel hearing—I think if you were to go back and look over the last 10 years and ask how many hearings have there been in the House or Senate on a question like this, I think the answer is that there have not been any.

As I say, I think this is going to have a major impact in Mexico, and in one sense it will be a harmful impact in that the Government of Mexico is going to be angered by this kind of discussion in public.

I think the pressure that this kind of discussion brings to bear is helpful. This is because just as we have to get organized, as the recipient country, and as the consumer country, they have to get organized as a producing and trafficking country to stop this before it is too late. And it can get to be too late in a number of years, where the traffickers' influence on the government is so large that it is almost impossible to root it out.

So I think one should not underestimate the value of public pressure and of publicity on an issue like this.

In addition, there is the private or diplomatic pressure, that is, raising it whenever we meet, in a meeting such as the annual summits that we have with President de la Madrid and President Reagan, making sure that we push all of these issues privately at that level as well.

We cannot solve this problem for Mexico. We can work on our end of it. Ultimately, it is they who are going to have to take responsibility for saving Mexico from this kind of increasing power and wealth by drug traffickers.

Now Mexico is not alone in this. There are a number of Andean countries that have this problem. But we are going to feel it more here, from Mexico.

Senator TRIBLE. Does the President of Mexico, does the Federal Government of Mexico possess the will and the capability to tackle these problems, to deal with the indifference, the corruption, and the drug trafficking, which is apparently so widespread?

Mr. ABRAMS. I think the President of Mexico does and I think the Attorney General does.

I would characterize the situation in this way.

I don't think they have caught up yet. I think that the traffickers have gotten ahead of them. In these last few years, there has been a huge increase in the amount of trafficking.

Again, I would draw an analogy here to us. I don't think, when you listen to the Commissioner talk about the border, we have not caught up either. We are just beginning to take a look and say my god, look at what's happening with drugs along the border, we have to be able to do better than that.

To some extent, Mexico is in the same position.

But their position is worse because of the degree of corruption.

President de la Madrid does not have the ability, as President Reagan does, to push a number of buttons because behind some of the buttons that you would want to push from the Presidential Palace in Mexico City you will find corruption. You will find people who do not want to carry out those orders.

So I think that it is going to be tougher for them to succeed in this effort. It is going to take more pressure and direction from the top than it takes in this country.

Senator TRIBLE. Thank you, Mr. Secretary.

Thank you, Mr. Chairman.

Senator HELMS. Thank you, Senator.

Let me say to you, Mr. Secretary, that I understand the situation you are in. You have to practice some diplomacy about Mexico.

You are right. They don't like these hearings. They don't like for anything to be exposed or considered. They tried to block these hearings.

They did not succeed and they won't succeed the next time they try, not as long as I am chairman of this committee.

But you will agree that corruption reaches into almost the highest levels of Mexico.

Do you deny that?

Mr. ABRAMS. I think I probably would disagree with that in the sense that I believe that at the highest levels, that is to say the

President and the Cabinet, I don't know of such evidence. I think we have seen with President de la Madrid and Attorney General Garcia a tremendous willingness to cooperate with us on these issues.

Senator **Helms**. Well, let's just face it.

Mexico does not begin to have the kind of society that we have nor the kind of government that we have. You yourself just mentioned that the President is hesitant to push the buttons, if he could push the buttons, because right behind those buttons, as you said, is corruption.

That is the point we are trying to get to and in the process determine what effect this is having on drug trafficking, the absence of real cooperation as the Commissioner of Customs has said, the impact it is having on the stability of our own country.

That is what these hearings are all about.

Now, furthermore, is it not a fact that in the Soviet Union, the Communist Party runs Russia, doesn't it?

Mr. **Abrams**. I will agree with you on that part.

But where are you taking me here? [Laughter.]

Senator **Helms**. Now it's a fact, isn't it?

Mr. **Abrams**. Yes.

Senator **Helms**. All right. The same thing is true in Mexico: the political party Partido Revoluctonario Institucional [PRI] runs the Government.

Mr. **Abrams**. I have to disagree with you in part, because it is true that PRI runs the Government, but Mexico has a largely open society. I mean, you read lots of criticism of PRI in the press. You have PAN winning elections in some cases. You don't have any opposition party winning any elections in the Soviet Union. You don't have any opposition press.

Senator **Helms**. Well, as a matter of fact—and I will put a question mark at the end of it—PRI controls the press in Mexico. There is clear evidence that Mexican journalists are paid a monthly bonus, up to $1,000 a month, depending on the size of the paper, and probably other perks and that sort of thing. And then they have the opposition parties, Partido Accton Mactonal [PAN] being probably the largest. But nobody in his right mind believes that PAN has the slightest chance of ever taking over that country because PRI is not going to allow it.

This is the kind of thing we are dealing with.

Now let's examine Mexico. And while we are into it, we ought to have the guts and feathers and all.

How about Mexico and its role in the Nicaragua conflict? I refer specifically to the Contadora process. What are they doing? What have they done?

Mr. **Abrams**. We have told Mexican officials on a number of occasions, publicly and privately, that we are very unhappy with the Mexican role, which has largely been to support and defend the Nicaraguan position.

Senator **Helms**. But the fact is that they have sided with Nicaragua, haven't they?

Mr. **Abrams**. Yes.

Senator **Helms**. They have frequent contact—maybe contracts, too—with the Nicaraguans.

How about Cuba?

Mr. ABRAMS. Let me back up a second. I would note that Mexico used to supply about 75 percent of Nicaragua's oil. They are distancing themselves from Nicaragua——

Senator HELMS. That is true.

Mr. ABRAMS [continuing]. And they now supply none of the oil.

Senator HELMS. That is true.

Mr. ABRAMS. That we view, obviously, as a positive step.

Senator HELMS. I grant you that.

Mr. ABRAMS. Nicaragua's oil now comes almost entirely from the Soviet Union.

Senator HELMS. Maybe that's because Nicaragua can't pay for it.

How about Latin American Marxist groups, guerrilla groups headquartered in Mexico? How about the Salvadoran guerrillas? Do they operate out of Mexico?

Mr. ABRAMS. The headquarters is more in Managua. But they have a substantial presence in Mexico City.

Senator HELMS. How about the Guatemalan guerrillas?

Mr. ABRAMS. Again, they have a presence in Mexico City.

Senator HELMS. The Monteneros?

Mr. ABRAMS. I don't have the information with me on them.

Senator HELMS. The PLO?

Mr. ABRAMS. They have a presence.

Senator HELMS. They have a presence there.

And the Libyans?

Mr. ABRAMS. There is no Libyan People's Bureau in Mexico City, so far as I am aware. There may be individuals present, but Mexico has not permitted the opening of a Libyan Embassy.

Senator HELMS. All right.

Now I mention all of this not in trying to be adversarial to you. But the American people deserve to know just what kind of neighbor we have.

Just like you, I want the relationship to be better and I want it to grow stronger because the Mexicans have decided to be more responsible in drug trafficking and in these are issues we are discussing.

Mr. ABRAMS. If I could just throw in a comment here, part of the problem I think is a historical one, that is, Mexico has tended, to a substantial degree, I think, to define their foreign policy in opposition to ours. You can take that back to the Mexican War. That is part of the problem, that is, that it is a kind of desire to be distant from us in whatever policy we are taking.

I think that explains in part their kind of Third World orientation.

Another part of it is the view of Mexico in Mexico of its own revolution—hat is, that they think what is happening in Nicaragua, for example, and has, on occasion, almost happened in other countries in Latin America, is a replication of what happened in Mexico and you have to let it play itself our, there should be no foreign intervention, and ultimately it will come out all right.

Where I think we disagree with them completely is that that analysis completely ignores the Soviet and Cuban role in a situation like Nicaragua, so that it is not an authentic national revolution at all. It is a kind of Soviet and Cuban takeover.

They have, at least up to now, more or less refused to see that and have seen in each of these another example of the Mexican revolution which, in our view, it is not.

Senator **Helms**. Are there any special benefits for businessmen who belong to PRI?

Mr. **Abrams**. Oh, I'm sure there are in the sense that, for one thing, I have no doubt that the pattern of Government contracting reflects who is friendly to the Government and who is in opposition to the Government.

I happen to have in front of me the Human Rights Report and would refer back to a point you made about the press. The placing of government advertising, for example, in friendly newspapers and not in unfriendly newspapers can obviously have a very large impact on the newspaper owner and on the profitability of the newspaper in question.

That kind of activity is common.

I have to say that it has not been unknown in this country, either.

Senator **Helms**. That is exactly the answer that I got yesterday when I asked the question in closed session.

Let's go back to corruption.

I know this is a sensitive subject. I am trying to walk through the minefield of classified information. How much corruption exists in the police force? Just take drugs.

Maybe Mr. von Raab would want to answer that or Mr. Westrate.

Mr. **von Raab**. My response would just be one word—"massive." I don't think I could detail it. It exists all the way up and down the ladder. The only developments of any consequence over the past few years is that the chain of distribution of "mordida" is sort of going in both directions now. It used to be typically, for example, let's say that the transit police, which runs Mexico City, would hit everybody up that they would pull over for alleged speeding violations for a certain fee, and then those fees would be distributed up the line.

We have seen examples more recently of large payments being made at higher levels of the police chain. That appears to be a development.

I would say that is a bad development. But it is no longer just sort of a farming—if you would think of "tax farming, 'where you could think of "corruption farming"—it is no longer a farming activity or a collection activity. Now there are absolute large payments being made at very high levels of the police—and by the police, I include all sworn officers in the Mexican law enforcement establishment.

It is a big problem.

I don't know if Mr. Westrate wants to add anything to that or not.

Mr. **Westrate**. Yes, just a note that corruption in Mexican police forces is not something that is new. It has been a problem for many, many years.

One difference, though, that we do see is the effects of the massive amounts of cash that are available, particularly through the cocaine traffic, in the last 4 or 5 years. That was brought home fairly graphically, I believe, in the investigation that followed the Camarena abduction and murder, in that the amount of money that the trafficking groups had and, therefore, their ability to move around very overtly, in large numbers, with protection by police officers and constant contact with the official police establishment was quite visible at that point. They had no concern whatsoever about the visible nature of that.

So the nature of it, as the Commissioner said, is deeper and more visible, and I believe that is because of the huge amounts of cash that are now available there.

Senator HELMS. If my two colleagues will bear with me, I am running over the time, but I would check something.

[Pause.]

Senator HELMS. I was enquiring about whether the next question would involve classified information.

Let me ask the question in a convoluted way and if it is classified, you can say so.

Do we have any figure of the number of police and military who were caught last year by our efforts and others? I am talking about the Mexican police and military.

Mr. VON RAAB. Do you mean prosecuted by Mexico?

Senator HELMS. Yes, sir.

If that is classified, I don't want to trample on that here.

Mr. ABRAMS. It wouldn't be classified.

Mr. VON RAAB. No, I'm sure it wouldn't be classified.

Mr. ABRAMS. Let me distinguish something, though, and I think the Commissioner would agree with this.

This discussion has been of the law enforcement officers. We are not talking about the military.

When he talked about massive corruption, I think it is fair to say that he was referring to police forces and not to the Mexican military. They have really not been involved much in the kind of efforts we are talking about.

Mr. VON RAAB. Except for the fact that we do have information that the army occasionally is used to guard ranches of powerful drug figures, either traffickers or producers, from being "bothered." I assume someone gets paid to do that.

Senator HELMS. Well, was the number 400 last year alone accurate as far as policemen involved in drug corruption?

Mr. VON RAAB. I understand that on April 24, 1985, the attorney general for the State of Puebla asked for the resignation of 450 State Judicial Police. And, according to other reports we have received, more than 700 agents from the MFJP, the Federal Security State and local police from the States of Jalisco, Chihuahua, Vera Cruz, and Sinaloa have been fired for being connected to narcotics trafficking.

Senator HELMS. OK.

I have one final question, Mr. Secretary.

In the Philippines, when it appeared that there might be irregularities in the election, international observers were sent there. In view of the political situation—and I didn't get to the questions about the election fraud in Mexico, like in Sonora, like in Chihuahua, like in Nuevo Leon, and so forth and so on—everybody seems to think it was a good idea to send the observers to the Philippines.

In view of the electoral process in Mexico, should it be considered whether we should ask Mexico for permission to send observers to the elections there in July?

Mr. ABRAMS. My view would be that it would be helpful to do that. These would not be necessarily U.S. Government people, but, you know, the kind of private groups that we have had in past elections, because in the international community, that is a way you get credibility for elections. First you admit such observers and then let them speak freely.

In the past, Mexico has taken the position that it neither sends nor will it receive election observers. So I think that is not going to happen.

Senator HELMS. Don't hold your breath. I agree with you.

I thank you for your patience.

Senator Murkowski.

Senator MURKOWSKI. Thank you, Mr. Chairman. I have just two other areas that I would like to explore.

I am wondering if—and I assume it would be more appropriate to address this to Commissioner von Raab—if we have any information relative to half-brothers, half-sisters, or relationships of that level being involved in drug trafficking or the involvement of associations with drug traffickers, known drug traffickers, and that would be relatives within the official Presidential family, down to the level of brothers-in-law, sisters-in-law, half-brothers, and so forth?

Mr. VON RAAB. Would have no comment on that in a public hearing.

Senator MURKOWSKI. Thank you.

I would ask that as this committee reviews the foreign assistance budget for the United States, in the consideration of Mexico, we keep in mind the concerns evidenced by my colleagues who have indicated, I think, a joint concern about the relationship that we have had. The question of continued assistance is a very meaningful one.

But just how do you suggest we go about trying to combat this growing threat that has been highlighted by the testimony here today? Many of the countries in Central and South America have asked for funds for drug interdiction, claiming that more money is needed to try to address the problem. Probably the No. 1 item in the minds of the public in the United States as far as cutting the budget is concerned is cutting back on foreign assistance; yet, practically speaking, that is not the answer, as we all know.

Just what do you suggest we do to get the attention of Mexico and other countries where we have a close relationship, a commitment to retain that relationship, yet a growing alarm at the extraordinary growth of the narcotics threat?

I wonder, is it just to throw more money at the problem in the area of enforcement? Or is there some way, do you think, gentlemen, that if we did reduce substantially foreign assistance to one country, to the point where the public in that country became aware of why the United States was reducing foreign assistance, because the United States felt that the country obviously wasn't doing a reasonable job regarding drugs, do you think that kind of internal reaction would bring about the reform that would be needed?

What is your suggestion of what we do?

Mr. ABRAMS. Senator, we do not give economic aid to Mexico. This is an example of where we do not have that leverage, which we do have on a number of South American countries.

We give them assistance for the drug program.

Senator MURKOWSKI. Well, we give them assistance with their loans, with various loan programs. We give them economic aid, assistance of a type, through loans, agriculture.

Mr. ABRAMS. Those are CCC credits.

I don't think that is going to solve the problem. First of all, if it has a negative economic impact on Mexico, you know, it could exacerbate the problem because more people there will have less work and turn toward illegal forms of earning money, or will emigrate up here.

Part of it is, I think, that we have to protect the budget of the agencies which are involved with this kind of enforcement effort, and three of them are represented here—that is, Customs, INS, and DEA. Their work is absolutely essential. If their budgets start getting cut by 10, 20, or 30 percent, whatever we are accomplishing in eradication or interdiction is going to get undercut.

The other thing I think is this. And I know this sounds like it is too easy to say, that public pressure and publicity is important, but it is.

For example, I think it is important that members of this committee speak out and visit Mexico, and make it clear directly how concerned we are.

The border, for example, is very important economically, not just to the Mexicans, but to all of the United States along it. My fear is that if we have an increase, even above present levels in the amount of drug trafficking over that border, we are going to have to interfere with the kind of free flows economically that we now see. That is going to hurt us as well as hurt Mexico, but there is not going to be much of an alternative.

I think we are just beginning to catch up in public perception of this as a result of something like this hearing.

But that is not a very satisfactory answer to your question. However, I think we have to realize that this is a major problem and it is not going to go away. There is no answer that is going to solve it no matter what we do by the end of the year or next year or something like that.

Senator MURKOWSKI. I would agree with you, Mr. Secretary.

But let's assume that we give the budget increases for the enforcement necessary and the enforcement gets tighter. That is not going to stop the trafficking. The trafficking will then be so rewarding that there will be those who will be willing to take the risk. We might combat to a degree the amount of narcotics coming into the United States and that would be a big plus.

But, on the other hand, realistically, if it is going to be curbed, it has to be curbed internally within that country, and it just seems from the testimony we have had today and the examples that have been given to the committee that it is going the other way. It is not moving the way it should, regardless of what our budgetary commitments are. It is increasing within Mexico, as an example, to the point where it is corrupting various levels of law enforcement agencies and it is moving out. As a consequence, I do not think we can just wish it to stop.

To go down to Mexico and to hold hearings such as this, to get publicity—and it has been stated that Mexico does not necessarily appreciate it—but it is not even deeper seated than that? Is it not a consequence of the tremendous burden on and inability of the Mexican economy to perform? Is it conceivable that it is likely to turn around on its own momentum, or is it going to take something more? Is it going to take an election in Mexico? Is it going to take another party?

It just seems to me that we are not really addressing the cause of the cancer. We are trying to address what we can to limit the spread. But, good heavens, if it is going the way it is, at the rate of growth that it appears to be, and considering the levels of Government that may have an involvement in it, what in the world are we going to do to get that turned around internally within Mexico?

Mr. ABRAMS. What seems to be lacking now is the kind of consensus that I think was reached in Colombia, after the Minister of Justice was killed a couple of years ago, by drug traffickers. Everybody kind of woke up and said this is a threat to our entire country. This isn't something where they thought well, it's bad, but it sort of infuses money into the country and basically the negative effects are felt outside the country in the United States anyway, so why is it our problem.

That murder was a kind of catalyst in Colombia, and everybody seemed to agree, all of the Colombian elites, that this is a war against Colombia and we are going to fight back and win it.

But that has not happened in Mexico.

Senator MURKOWSKI. But we have had a murder against our agents.

Mr. ABRAMS. Against ours. But it hasn't affected them so directly.

Senator MURKOWSKI. But does it have to come to that?

Mr. ABRAMS. Well, I don't know the answer to that.

Senator MURKOWSKI. I just wonder if there isn't some other way to get the attention of the Mexican Government. But, even more important than the Mexican Government, it has to be the people of Mexico.

Mr. Chairman, I would like to see us think through some appropriate steps that could be taken to encourage Mexico, the Mexican people, to rise up and fight this. But if it is so infiltrated, and if the economy is heading where it appears to be, then drugs may appear to be the only cash crop of the economy of the country, and it is pretty tough to expect it to turn around by itself.

Mr. ABRAMS. Well, there has been a turn around to some degree in the way the Mexican Government is looking at the economy. Some of the positive things you know about—for example, joining the GATT, eliminating subsidies on exports—the kind of things which, if they follow through, can produce a more productive economy over time.

What I think is lacking is any kind of consensus that drugs and narcotics-related corruption is not just a problem among 50 problems, but a major challenge to the stability of the system.

That view, which we have in this country, I guess is just not all that widely shared in Mexico. So you don't have the development of that kind of willpower to really stamp it out.

Senator **Murkowski**. Well, there are many reasons for that. Mexico does not have the communications network that we have in the United States. You can spend a week in some small Mexican areas and there will be no newspapers and very little communicative capability.

I do not envy you your challenge ahead.

Mr. Chairman, I really do feel there ought to be some other way, short of a calamity or a tragedy, to get the attention of Mexico on how significant this growth is. The fact that the trend is moving the wrong way, as has been evidenced by the Commissioner here and others, I think is testimony in itself that there is going to have to be a very, very strong message sent to the Government and the people of Mexico. How that message can be sent, I don't know. But I think you are off to a good start, Mr. Chairman, right here, and I commend you for that effort.

Senator **Helms**. I thank the Senator.

I understand that the Secretary has another appointment for which he is already late.

Mr. **Abrams**. Yes, sir.

Senator **Helms**. But I do have one question for him before he leaves and then I have a few more for the others.

I have been asked several times—and I don't know the answer to this—about what is behind the intended purchase of United Press International.

Would you tell me what you know about the man who is buying it, his philosophical orientation, et cetera?

Mr. **Abrams**. Yes.

First, this is a private business transaction in which we do not have any real role.

Senator **Helms**. I understand.

Mr. **Abrams**. It is Mr. Vazquez-Rana. I don't know him personally. He is a very successful businessman who had a chain of furniture stores which he built up into a very productive and successful chain, and then turned to investing some of the money he made out of that chain of stores into journalism, that is, in buying newspapers. He offered to buy UPI last year, at a time when it was debt-ridden. The thing is now in court, which means that I want to be a little bit careful about what I say about that purchase.

The general concern has been that because of his alleged association with ex-President Echeverria, he has very left-wing political views.

As I say, I don't know him. But those who do tell me that that is not right, that he is probably more accurately described as somebody who is either in the center or to the right of center, that he has the kind of business views, the kind of political views, that you would more likely associate with a successful businessman.

So I think that the evidence that is put forward that he has an extreme leftist view is thin and seems to be based exclusively on his association with ex-President Echeverria.

But on the basis of what I have seen, he seems to be a completely legitimate, highly successful, Mexican businessman whose political views are pretty much in the center.

Senator HELMS. Thank you, Mr. Secretary. I appreciate your coming this morning. We will probably see you again before this subject is exhausted. If you wish to depart, fine, or if you wish to stay, fine.

Mr. ABRAMS. I have to run off at this point.

But thank you, Mr. Chairman. I really meant what I said about the need for discussing this kind of issue. It has been a long, long time since the House or Senate really did so. I think it is crucial that we do so, so I have been delighted to be here with you today.

Thank you.

Senator HELMS. Thank you very much.

I have a few more questions for Mr. von Raab.

I kind of wish that you would amplify your previous comments about the corruption in the Mexican Government from your perception.

You made some critical comments. Have you heard anything from Mexico in response to those?

Mr. VON RAAB. No.

I have been led to believe that the Mexicans are not happy with my comments, and I gather they sort of think I am on some sort of, you know——

Senator HELMS. Vendetta.

Mr. VON RAAB [continuing]. Exercise or vendetta. I don't know why.

They have been very defensive about them.

I received one letter—actually a cable—from the Mexican customs commissioner, who is called the Director General of Customs, in which he asked me to provide him with some of this information that I had been laying out. He said that he would like some of the facts to which I referred, so that they might proceed legally against violators in Mexican territory.

Interestingly enough, in my meeting with him some weeks before, he was virtually disinterested in my concerns over a particularly Mexican customs official whom we had attempted to apprehend in Arizona, who made it back across the border. We were only able to grab his coat. At the time that I met with this individual, he was more interested in the man's coat than he was in the prosecution of the individual.

I did respond to him and I would be happy to give you a copy of both the unofficial translation of the letter that I received from him and my response, if that would be of interest.

[The information referred to appears in the appendix.]

Mr. VON RAAB. In it, I did indicate that there were several incidents concerning activities coming out of Mexico that we were concerned about. I gave them general information. But I did have to take the position which I take, and this is a comment on the corruption there, that until I am shown that an individual is not corrupt, I think the level of corruption and the degree of corruption is so great that my presumption is that he is corrupt. I said because corruption is so pervasive, I cannot provide sensitive confidential information that might find its ways into the hands of corrupt officials. The only way I would consider doing so, I said, would be if you would provide me with a list of noncorrupt officials among whom this information would be very closely held.

In all fairness to the Director General, this letter of mine was only sent out on May 9, and so perhaps I can look forward to a list of noncorrupt officials that he can provide me with.

Senator HELMS. Well, let me be specific.

Felix Gallardo is, according to—and I don't want to get into classified information, so let me be careful—he is alleged to be a central figure in the murder of DEA Agent Enrique Camarena.

Is it true that Gallardo is being protected in safe haven in the home of the Governor of the State of Sonora?

Mr. WESTRATE. Senator, there have been I believe some newspaper stories to that effect. We cannot substantiate that. He is still a fugitive, however.

Senator HELMS. Do you know anything about that, Mr. Commissioner?

Mr. VON RAAB. The only information I have on the Governor of Sonora is that he is alleged to own four ranches located near Alamosa in Sonora, on which all four ranches is grown marijuana and opium poppies.

We believe these ranches are currently or occasionally guarded by the Federal Judicial Police and the Mexican Army.

Senator HELMS. Now I would appreciate responses from anybody who wants to handle the next two or three questions that I have, and then that will be all.

I think we ought to talk about the Colombian involvement in drug trafficking in Mexico.

Can you explain the involvement of Colombia?

Mr. WESTRATE. Well, sir, there has been for some years a relationship between the Colombian and the Mexican traffickers. We believe that the shift in the transmission of cocaine through Mexico has capitalized on those relationships.

Some of the principal traffickers in the Guadalajara area had become multidrug traffickers—in other words, cocaine and heroin activities.

So, we find them operating in Mexico both unilaterally to a lesser extent and to a greater extent in cooperation with their Mexican trafficking counterparts.

Mr. VON RAAB. The only comment I could make on the Colombian trafficking is that Customs, as well as DEA, has had the unfortunate experience of having had years of practice with the Colombians operating in the Southeastern United States. All of the signs of Colombian activities are now appearing on the Southwest border. Their "MO," as they say on the television, is the same. So the same characteristics of criminal activity are starting to appear on the Southwest border, and we have any number of incidents of the direct involvement of Colombians in cocaine trafficking across the border. They sort of use the Mexicans right now as "freight forwarders."

There is a question in my mind as to whether the Mexicans would allow the Colombians to take this business and run it out of Mexico, or whether the Mexicans would retain control of it. I would assume that the Mexican concern for sovereignty would also run to the cocaine business, and that they would continue to control the business and just allow the Colombians to operate with their permission there rather than to take the business over entirely.

Senator HELMS. Mr. Brandemuehl.

Mr. BRANDEMUEHL. Mr. Chairman, let me add a footnote to this, too.

I have a few statistics here that might bear this out.

I mentioned earlier that we have seen an increase in our other than Mexican nationalities coming up through Mexico. This year, we have had a 128-percent increase in the Colombians that we have encountered. Last year, from October to March, we apprehended 1,506 Colombians. This year, for the same period, it has been 3,433.

So I think it indicates that there are a certain number of Colombians permeating Mexico.

Senator HELMS. I would like to have a little clearer understanding of whatever cooperation there is between Mexico, Panama, Colombia, and Bolivia in drug trafficking and money laundering.

Does anybody want to tackle that?

Mr. Westrate.

Mr. WESTRATE. Do you mean between the Governments, sir, or do you mean amongst the trafficking groups?

Senator HELMS. Well, whatever.

Mr. WESTRATE. Well, we just completed in Buenos Aires, the International Drug Enforcement Conference No. 4, at which 16 countries of the Americas sent their drug enforcement chiefs, to a conference on how we can address this problem better. Mexico was present, Colombia was present, Bolivia and Peru and others were present. We think we made some progress in that regard.

So there is a dialog ongoing between the narcotic law enforcement executives of these various countries.

We see a little bit of a potential shift in the flow of cocaine that is perhaps moving now in an increasing way between Bolivia and Peru and directly into and through Mexico, as opposed to transiting through Colombia en route for processing.

We also are seeing an increased processing of cocaine base into cocaine hydrochloride in Mexico. There are, we believe, some laboratories operational in Mexico, and we are also seeing an increase in cocaine hydrochloride laboratories operating in the United States.

So there are some pattern changes that are occurring. And, of course, these trafficking groups are making adjustments accordingly, based on their logistical needs.

In the particular case of the transshipment of cocaine, we believe most of that involves the utilization of private aircraft related facilities, clandestine strips, and places for stashing loads. For example, we see a lot of activity on the Southwest border, where the load will be brought up, stashed, like in Tijuana, maybe a 1,000- or a 2,000-pound load, and then it will be driven across the border, smuggled in in 40- or 50-pound lots.

That whole area is changing somewhat.

Senator HELMS. But do the drug traffickers in these countries that you listed and that I listed interlock? Do they cooperate with each other?

Mr. WESTRATE. Yes, absolutely. It is a business arrangement. A lot of times we find them interconnected with radio systems and other forms of sophisticated communications.

Senator HELMS. OK.

My final question is this.

I think we need to pursue just a little bit the line of questioning of Senator Murkowski about the business of money laundering.

Has the Mexican Government taken any steps to try to identify and to stop money laundering activities in Mexico?

Mr. Commissioner.

Mr. VON RAAB. They have currency controls.

Senator HELMS. Pardon?

Mr. VON RAAB. They have currency controls. In other words, they are attempting, I guess, to stabilize their own currency.

We occasionally have had, in the past, a flutter of assistance with respect to inquiries which we made concerning movements of cash in and out of Mexico. But I could say that the simpler and shorter answer to your question in terms of this cooperation is no.

Senator HELMS. Well, here again one of your people was at a hearing recently—and I am sure this was not classified. There was a picture of just two shipments of money, of currency. I found myself wishing, if nothing else, that the American people could understand what is going on in terms of the enormity of the amount of cash that is involved.

We bandy around figures up here, and you talk about that bank in that little town. But the best way to illustrate it I guess would be to show some pictures of it.

I would like to ask you to furnish me with a couple of prints so that I can use them for illustration.

Mr. VON RAAB. Surely.

The volume of money involved from a sheer physical standpoint is very impressive; $1 million, surprisingly enough, in what we call "street money," weighs 100 pounds.

There are logistical problems with dealing with that, and that is why we have been able to develop so many successful or soon to be successful investigations, largely in Los Angeles and in the southern California area, but also in Texas as well, because there is tremendous movement of cash.

Senator Murkowski is correct. That is a very fertile area for criminal investigations and one that is absolutely essential in terms of getting the higher ups in any organization.

Senator HELMS. One final question—and this is my last one, Mr. Westrate.

Just for the record, would you again review the facts surrounding the death, the murder, the assassination of DEA Agent Camarena?

Mr. WESTRATE. Yes, sir. I would be glad to do that.

The agent, Enrique Camarena, was abducted, was kidnapped, in Guadalajara, Mexico, on February 7, 1985. He was abducted in part by law enforcement people that he knew. We believe that he was in the hands of the trafficking groups to whom he was delivered for at least 2 days prior to his death.

On the same day, at a different location, a pilot, Mr. Zavalo, was also abducted, and some days later both bodies of these two people were discovered at a place known as the Bravo Ranch, some 60 or 70 miles south of the city.

The Bravo Ranch investigation is still ongoing as to exactly what transpired at that location. The bodies, when they were discovered, had obviously been previously buried at another location and that investigation is not yet resolved to our satisfaction.

We are working very closely with our Mexican counterparts to pursue all of the investigative aspects in Mexico that we can. At the same time, we are conducting a parallel investigation with the FBI and DEA working together here in the United States for the purpose of seeking indictments in the United States of those who are responsible.

At some point in the future, perhaps we will be able to pursue prosecutions of those people here in the United States as well.

So we will exhaust every opportunity to bring legal process against those who were responsible.

We are receiving the full support of all elements of the U.S. Government in this effort, and we are hopeful that we will have some positive and satisfactory final results, even if it takes several years, for we will pursue it that long.

Senator HELMS. Gentlemen, I thank you very much.

Unless there is further comment, the committee will stand in recess.

[Whereupon, at 12:15 p.m., the subcommittee adjourned, subject to call of the Chair.]

SITUATION IN MEXICO

TUESDAY, JUNE 17, 1986

U.S. SENATE,
SUBCOMMITTEE ON WESTERN HEMISPHERE AFFAIRS,
COMMITTEE ON FOREIGN RELATIONS,
Washington, DC.

The subcommittee met at 10:05 a.m., in room SD–419, Dirksen Senate Office Building, Hon. Jesse Helms (chairman of the subcommittee) presiding.

Present: Senators Helms, Kassebaum, Murkowski, Zorinsky, Dodd, and Kerry.

Senator HELMS. The subcommittee will come to order.

Today we continue our hearings on the situation in Mexico, particularly with regard to the political situation there.

The political situation in Mexico should be of great concern to Americans because the financial situation in Mexico depends to a very great deal upon the political situation. Mexico's debt stability should be evaluated on the basis of the viability of its political system.

If the United States is called upon, both directly and indirectly, to bolster the faltering Mexican economy, we have the right to inquire to what extent our assistance might be stabilizing or destabilizing. Some have charged that these hearings are an attempt to blame Mexico for problems caused by external forces. If there is any blame intended, the blame should fall upon the United States, it is said, for providing financial assistance in the past without demanding political reform.

Our assistance in the past has benefited United States private financial interests in the short run, but in the long run, it has not benefited the Mexican people.

So, if the situation in Mexico continues to be one of corruption, fraud, and the strangling of democracy, then vast infusions of United States taxpayers' money will serve only to open up more opportunities for corruption and fraud.

The people of Mexico are decent, hardworking, and capable of running their own affairs. But they cannot do so if they are oppressed by a government dominated by corruption and fraud.

As the distinguished Senator from Texas, Mr. Gramm, pointed out in these hearings last week, Mexico can help its oppressed people only by adopting free enterprise solutions to its economic difficulties. But the ruling party in Mexico, the PRI, has a conflict of interest. Its political power is to a great extent tied directly into the system of graft and corruption. It buys its political power by using socialist methods of economic control to direct graft and corruption to the ruling circles. It gives the ruling few a stake in continuing oppression.

The ruling circles in Mexico fear economic freedom precisely because freedom is contagious. If the PRI opens up the system to economic freedom and the vast development of wealth that would come with it for millions of Mexicans, it would lose the power to enforce its political control through corruption.

Therefore, through these hearings, we hope to help the Mexican people bring about economic reforms so that it might be possible to help them. I am not referring to the bankers' idea of fiscal austerity whatever the social cost, but to the political reforms that will release the creativity of the Mexican people.

The Mexican people may be able to do this through the PRI, or they may be able to do it otherwise. I do not know. I do not have the slightest contact with any political party in Mexico. The choice of reform is for the Mexican people to decide.

But if Mexico wants United States help, the Mexican people have no choice, it seems to me, but to bring about fundamental political reform.

The problem with a one-party system is that it lacks the checks and balances of two-party competition. No single group of leaders can expect to maintain a monopoly on political wisdom for 40 years. We believe that the strains and stresses evident in the political system can be attributed to the lack of the free play of democratic forces in Mexico.

This view was summed up by a distinguished Mexican clergyman, the archbishop of Chihuahua, in a pastoral letter on March 19 of this year.

Let me quote the archbishop:

> At the base of the corruption that affects the country is a greater corruption, which is electoral fraud. . . . It emerges not only in falsification of votes, but also in all those reproachable methods that lead to weighing the results in favor of one party going over the head of free election by citizens.

Unfortunately, the world will never know the extent of electoral fraud as a prime cause of the economic and social crisis in Mexico. The word "fraud" hardly describes a situation where the announced results bear very little relation to the actions of the voters.

In the United States, we are familiar with the stuffing of ballot boxes and the falsification of registrations and last minute irregularities that provide just enough margin to win.

But in Mexico the situation appears to be different. Do the officials introduce fraud into the counting process, or do they simply ignore the actual count and announce any set of figures that seems to be convenient?

I have been provided with two sets of statistics from sources within the Mexican Government. The documents provided to me do not come from United States sources, but from my own sources directly in Mexico. And I have evaluated them carefully in consultation with experts in Mexico. I have evaluated them carefully in various ways, and I have reason to believe that they accurately reveal the situation in Mexico.

What do the documents show? They show a double set of election results for the 1982 Presidential elections and for the 1985 elections to the Chamber of Deputies.

So what we have is a double set of books, one public and one private.

One set of statistics is the Mexican election results released by the Mexican Federal Election Commission, or CFE, in the Spanish initials. The other set is the real election results as received by the Presidential chief of staff of the military, or EMP, in the Spanish initials. Needless to say, the second set is top secret in Mexico.

According to the public results, President de la Madrid won a total of 71.24 percent of the vote. But, according to the actual results, kept secret, he won 39.78 percent of the vote.

In the announced results of the 1985 elections, the PRI and its allies won 71.10 percent of the votes, the right coalition won 18.19 percent of the votes, and the left coalition won 6.04 percent. But the actual results, kept secret, show that PRI and its allies won only 48.02 percent of the votes, the right coalition won 36.38 percent and the left coalition won 10.38 percent.

We have tabulated the entire results, party by party, public and secret, and these figures will be inserted in the committee record.

[The information referred to appears in the appendix.]

Senator **Helms**. They will also be distributed to the media as soon as the copies are made and they are in the process of being made at this moment.

It should be noted that this situation occurred where the ruling party has virtually total control of the press and the electoral mechanism. I just have to believe that this is a scandal sufficient to impeach the legitimacy of the government.

Now I am well aware that the Mexican Government is going to deny that it engages in double bookkeeping. That is to be expected. This would be consistent with past statements made by the Mexican Government since these hearings began.

But the answer is simple. I would say to the Mexican Government open up your electoral process to review and inspection. Let impartial international observers review the electoral system in the past, and open up your present electoral process to teams of international observers—not just to the polling, as such, but to the entire process of counting and recording the results.

Mexico deserves no help from the international community until this is done.

And let the press in Mexico speak with an open mind. Let all of the political parties in Mexico criticize the process and recommend reforms. These reforms must come from Mexicans, not from the United States. But the Mexican Government, if they expect any monetary help from the United States, must, in my judgment, give the Mexican people a chance to speak.

Now let me mention two or three things that are of a personal nature.

In this morning's Washington Post there was an editorial that was published after a complete explanation had been given to the Post of what the chairman of this subcommittee actually said and the context in which it was said. And yet this Washington Post editorial ignored any aspect of the explanation.

I am accused of "insulting the Latins. 'That is the headline.

Not true.

I was interviewed by one reporter who inquired about the volatile reaction of the Mexican Government officials to the first hearing. Let me give you an example of what was said in one Mexican newspaper.

I will quote from the Washington Post's own magazine, Newsweek as an illustration. This is in the May 26 edition of Newsweek, page 17. Here is what the Newsweek magazine reporter said:

> The government-run "El Nacional" ran a lurid article headlined "U.S., the leading promoter of drug trafficking," and another paper lampooned him as "a pot smoking gringo tourist who complained about Mexican corruption while smuggling cocaine himself."

[Laughter.]

I said to the reporter that I don't know what they are so upset about. If it is not so, they could demonstrate that it's not so. But, of course, it is. They ought to start cleaning up their act down there.

Now, I do not criticize people as a group. I don't even criticize the Washington Post editorial writers as a group. I wouldn't say, for example, that they are deliberately careless with the truth, all of them, because there may be one on the Washington Post editorial staff who is not careless with the truth. [Laughter.]

But I resent this kind of journalism particularly when last week the Washington Post ran an editorial saying that I was conducting a vendetta against Mexico. The same newspaper that refused to run any account of the last hearing on which they base their protest.

Now, if that is objective journalism, it has changed a great deal since I went to journalism school.

There is a little bit of a change in this morning's agenda.

As you will note, the Honorable John Gavin, former U.S. Ambassador to Mexico, was scheduled to be here this morning. He readily agreed to come. We discussed his coming.

But on Friday, June 6, Ambassador Gavin was called by the Mexico Desk at the State Department and was told that Secretary of State Shultz did not want him to testify.

On the same day, Ambassador Gavin was called by congressional relations at the State Department and was told that the State Department was going to call Helms, the chairman, and tell him that Gavin was unable to testify.

Ambassador Gavin told them absolutely not to tell Chairman Helms that. He said, "If the Secretary does not want me to testify, let him tell Senator Helms that. But do not tell him that I am unable."

On Friday, June 6, Ambassador Gavin then called Secretary Abrams to see what was going on. As an outgoing Ambassador, he wanted to comply with the wishes of the Secretary of State.

Mr. Abrams told him that it was true that the Secretary did not want him to testify. But the State Department never called me.

Therefore, I announced in perfectly good faith last week that Ambassador Gavin would appear here this morning.

Now, then, on Monday, June 16, which was just last night, at 5:30, the congressional relations at State Department called the Foreign Relations Committee to say that the State Department no longer had any objection. At about the same time, they called Ambassador Gavin and gave him the same message.

They had to have known at that hour that it would be impossible for the Ambassador to fly from California to Washington to get here by 10 o'clock this morning.

So I can say at this point that the Ambassador has agreed to appear before this subcommittee on Thursday, June 26, at 2 p.m.

I regret it if anybody came to hear Ambassador Gavin in particular. You will not be able to hear him today.

But we do have a very distinguished panel, listed on the rest of our agenda, which I welcome to the committee this morning.

I would ask them to take their seats in the order that I will identify them.

First is the Honorable Eugene Douglas, president and chief executive officer, Alpha Environmental, Inc., of Midland, TX, and former Ambassador-at-large for Refugee Affairs from 1981 to 1985. Then the Honorable William D. Rogers, Arnold & Porter, former Under Secretary of State for Economic Affairs from 1975 to 1977, and former Assistant Secretary of State for Inter-American Affairs from 1974 to 1975. Third is Mr. Sol Sanders, former international editor of Business Week magazine. Fourth is Cathryn Thorup, Director, United States-Mexico Project, Overseas Development Council.

Lady and gentlemen, we welcome you and appreciate your coming here this morning.

We will hear you in the order identified.

Mr. Ambassador, we will therefore hear from you first.

Thank you. Please proceed.

STATEMENT OF HON. H. EUGENE DOUGLAS, PRESIDENT AND CHIEF EXECUTIVE OFFICER, ALPHA ENVIRONMENTAL, INC., MIDLAND, TX, FORMER AMBASSADOR-AT-LARGE FOR REFUGEE AFFAIRS (1981-1985)

Mr. DOUGLAS. Thank you, Mr. Chairman.

My name is Eugene Douglas. After serving in the Reagan administration for 5 years, I have reclaimed my private life, having returned to Texas.

I have a prepared statement which I submitted to the staff, and I ask that it be included in the record.

In the interest of time and the number of people on the panel, I would like to add a few additional comments to the statement that has been submitted. With your permission, Mr. Chairman?

Senator HELMS. It will be inserted as if read.

Mr. DOUGLAS. As many of my friends and colleagues in the government outside know, I have a lifelong interest in Mexico and a deep abiding affection for the people of Mexico. Over the past quarter century, I have observed a somewhat curious, and not always consistent, hesitancy to speak out publicly about things in Mexico that seemed to be wrong; whether you are a government official, a businessman or an academician. We are too often hesitant to speak about Mexico yet we do not observe a similar silence when it comes to other friends, allies, and close associates in democratic countries around the world.

It strikes me, Mr. Chairman, that if one has a friend—and Mexico certainly has been and must remain, a close friend of the United States—and you respect that friend and wish him well; when you observe things going wrong, you want to tell him as soon as you can, in clear language, what you think and how we can fix the problem at hand.

Sometimes the hesitancy which I have observed in the press, in the Congress, and in the conduct of our diplomacy, to speak out more openly, has contributed to the continuation of errors or points of view that I think have not helped either the interests of the United States or the well-being and true interests of the Mexican people.

From my vantage point as a Texas businessman with a long association of dealing with Mexico, there are two things that I would lay on the table as absolutely essential for us to discuss with our friends in Mexico over the months and years ahead.

One theme is the importance of releasing the entrepreneurial spirit of the Mexican people. Mexican businessmen, Mexican laborers, Mexican engineers are among the most determined, hard-working, self-sacrificing, innovative people I have had the pleasure to work with any place around the world. They are not always as well trained as they might be in up-to-date techniques, technologies, and materials, but are always eager to learn and always wanting to build things for Mexico, to better the lives of their families, their communities, and their people, and to become a true, active, and respected partner on the international business stage.

I have no doubt whatsoever that should the Mexican Government find the way to release the enormous creative and productive energies of their own people—in a sense, to trust their own people as much as many foreign businessmen and observers trust the Mexican people—they would find an explosion of job creation, wealth creation, and innovativeness that would stagger all of Latin America and illuminate the last decades of this century in a very positive way.

The second thing that I would lay before you is my deep conviction that, despite all of the cross-border traffic, all of the business and diplomatic contacts that exist with Mexico, there has been a deterioration, a moving backward in the people-to-people contacts over the last decade. That is especially noticable with a group which I think is essential in building the base of a free enterprise system and an open and socially just democracy in that country: the students.

I feel deeply that we need to do more. This committee needs to have an interest and the organs of our Government and private foundations need to take a renewed interest in Mexican education; in providing scholarships and travel grants for movement in both directions.

If Mexico is to move forward into a period of growth and job creation, it is going to require engineers, scientists, doctors, and trained, skilled laborers, far in excess of what the universities, schools, and technical institutes in that country will be able to provide in the short term on their own.

With all of the vast resources at the disposal of the American Government and private foundations, I know we can do better than we are now. Over the coming year, I will have a new platform for advocacy as an adjunct professor and fellow in the Mexican Studies Program at my old alma mater, the University of Texas. I will be able to share my enthusiasm with businessmen around the country, with people here in Washington, and with the foundations and other universities. We can extend a new hand of friendship to the young people of Mexico who so want to learn. We must encourage them to use their energies to build the kind of country that I know they want to have.

I appreciate the invitation to be with you today, Mr. Chairman, and I would be happy to answer your questions.

Thank you.

[The prepared statement of Mr. Douglas appears in the appendix.]

Senator HELMS. Thank you very much.

At this point, let me welcome Senator Zorinsky and Senator Kassebaum.

Senator Zorinsky, do you have an opening statement?

Senator ZORINSKY. I have an opening statement, but in the interest of time, I would ask unanimous consent that it be put into the record as if given in its entirety.

Senator HELMS. Very well. I thank the Senator.

[The opening statement of Senator Zorinsky follows:]

OPENING STATEMENT OF SENATOR EDWARD ZORINSKY

Senator ZORINSKY. Mr. Chairman, Mexico, by virtue of its geographic location, its resources, and its vibrant culture and people, is especially important to the United States in so many ways; given the reaction in Mexico to the first hearing, some in our sister nation in North America might lament that Mexico is important in too many ways. Our intertwined, interdependent, and extremely complex relationship, however, is and has been for many years, a fact of life. It is a fact of life tempered by years of two nations with significant disparities in size, wealth, and culture living next to each other on the other side of a 2,000-mile border. Our task in these days, in what has developed into an intense focus on Mexico, is to place the current set of issues back in their proper perspective so that those in both governments can work for resolution of major areas of concern in a climate conducive to settlement.

Mr. Chairman, I believe that recent events have significantly contributed to doing just this and it causes me to be more positive about the current state of relations between our two countries. The hearing held last week, with its excellent testimony and responses to questions, was very constructive. Attorney General Meese's meetings with his counterpart in the Mexican Government regarding the strengthening of cooperation on narcotics and other law enforcement issues are positive developments.

I would cite as yet another positive development the recently concluded 26th meeting of the Mexico-United States Interparliamentary Group, held in Colorado Springs at the end of last month. Because of the chance timing of this year's meeting, the dialog and exchange between Members of Congress of Mexico and the United States was perhaps the most frank and useful in the history of these unique meetings. The Mexicans, led by Senator Riva Palacio, vented their concerns about the various issues on the agenda between our two countries, and also spoke of areas of cooperation for mutual benefit. Members of our delegation, speaking from various perspectives, also articulated concerns. President Reagan met with the Mexican delegation before their return to Mexico and reenforced a current that I believe was present by the end of the meeting. He said, "The good will and cooperation between our governments have been a major boon to our peoples. * * *" The President further stated that cooperation between our countries is a "tremendous resource," adding that much more is possible in the future.

Mr. Chairman, I conclude by reading my remarks at the end of my statement on United States-Mexico agricultural relations during a session in Colorado. I said, "The point which I want to leave with you is that despite obstacles and sharp differences, areas of agreement, accommodation, and cooperation can be found in an agricultural relationship which can be beneficial to both the United States and Mexico. It takes constant discussion, understanding, respect, and good will among good neighbors. This formula has to be applied to all the issues on the agenda between our countries so we can maintain a unique and lasting relationship."

Mr. Chairman, I look forward to another constructive hearing.

Senator **Helms**. Senator Kassebaum?

Senator **Kassebaum**. I have no opening statement, Mr. Chairman.

Senator **Helms**. Fine. Thank you.

I believe next on our list is Secretary Rogers.

We welcome you, sir, and appreciate your coming.

STATEMENT OF HON. WILLIAM D. ROGERS, ARNOLD & PORTER, FORMER UNDER SECRETARY OF STATE FOR ECONOMIC AFFAIRS (1975-77) AND FORMER ASSISTANT SECRETARY OF STATE FOR INTER-AMERICAN AFFAIRS (1974-75)

Mr. **Rogers**. Thank you, Mr. Chairman.

My statement, as prepared, was an attempt to address the nature of the relationship between the United States and Mexico and the principles that I conceive should inform the dialog between our two countries.

I have a feeling after your opening statement that I may be a bit late. But, nevertheless, let me summarize it, if I may.

Senator **Helms**. Mr. Rogers, would you please pull your microphone a bit closer.

Mr. **Rogers**. Yes, Mr. Chairman.

If the United States has one truly special relationship with another country in all the world, that country is Mexico. No other nation's internal developments impact so directly on our own national purposes as Mexico's. With no other do we have such a range of concerns across the full spectrum from national security to drugs, migration, border industries, energy, trade, and finance.

It is a remarkable rleationship. Standard diplomatic textbooks do not treat it. Nowhere else is there a border dividing, but not separating, a developing people from an industrialized country. No other frontier in the world has such stark contrasts of history, culture, language and economics. And no other where the common relationship is so asymmetrical.

It is said that the United States represents three-quarters of Mexico's foreign policy. But for the United States, Mexico has usually been a far less pressing concern, one to which we turn as an afterthought or in times of crisis.

Carlos Fuentes has called it:

> The next frontier of American consciousness. The most difficult frontier of all, the strangest, because it [is] the closest and, therefore, the one most often forgotten, most often ignored, and most feared when it is stirred from its long lethargy.

And so he suggests that when we suddenly rediscover Mexico, we think we need to save it, to fashion it in our own image, metaphorically to occupy it once again, to assimilate it to our own national experience, to make it something it is not.

This seems to be another such moment of panicky rediscovery.

It has suddenly become fashionable to pronounce Mexico a menace to our own national interests. It is proclaimed that where once Mexico was the model adjusting debtor, the new Mexico bashers now see economic disaster in the recent fall of oil prices, the burden of debt service and increases in inflation and unemployment.

The very nation which for decades had been the toast of the hemisphere for its stability, its avoidance of coups and its distaste for military dictatorships is now said to be threatened by political dissolution.

It is accused of complicity in the drug trade, and its officials of rampant corruption.

And, I should add, that the executive branch response to this has been anything but coherent. Indeed, one would be hard put to think of a moment in the recent history of United States-Latin American relations when the agencies of our executive branch have been so publicly at each other's throats, so confusing in their policy statements or so obviously without senior leadership or direction.

Confusion and conflict between agencies are awkward enough in the conduct of any diplomatic relationship. But it is intolerable in the case of Mexico. Too much is at issue. The relationship is too sensitive.

The result of all this is to convince Mexicans, not to mention our friends and allies in the hemisphere and around the world, at least that the United States cannot sort out its priorities. At worst, Mexicans wonder whether this good-cop-bad-cop posture hides some devious strategy. They cannot believe that a great power can, in fact, be so confused about policy. There must, say some Mexicans, be some explicit target for all this activity in Washington—perhaps even the political structure and process of Mexico itself.

Strong rhetoric, Mr. Chairman, in my judgment is not the way to manage this very special relationship. Denunciation is counterproductive, particularly in the case of United States-Mexican relations, of all the relationships that the United States has around the world. Quiet diplomacy, a sense of our long and troubled history together, a sensitivity to the very special psychology of our coexistence, these are of the essence of the relationship.

The efforts, for example, with Mexico which Chairman Volcker and the Federal Reserve Board have managed in recent days were one such extremely positive development. They may have gone some length to repair what was moving toward disaster. They are certainly a measure of the advantage of bilateral cooperation over unilateral confrontation and denunciation.

There is, also, let me add, an element of self-righteousness to the recent attacks on Mexico. The United States is the most insatiable market for drugs in all of recorded history; it comes close to hypocrisy for this nation to condemn Mexico, whose resources for drug policing are a fraction of our own, when we are unable to manage the traffic and consumption in our own Nation.

The United States is also the world's most insatiable consumer of foreign capital. American banks have far more on deposit from Mexico than they have loaned to that country. It is scarcely just for us to denounce Mexico as exclusively responsible for capital flight when we, because of our budget deficits are sucking up the capital of foreign nations so effectively into our own financial markets.

A fair reading of the situation suggests that the apocalyptic readings of Mexico are vastly overdrawn. We have indeed reacted with fear to our new discovery of Mexico. Yet, in fact, Mexico is responding favorably to three major areas of our concern—in trade and debt, on border issues, and on broader issues of national security.

A nation can choose its friends but not its neighbors. We and Mexico are fated to live together, in sickness and in health, for richer or for poorer, and there is no death that can do us part.

We had best learn to exist side by side with civility and understanding, for what injures Mexico does damage to our own vital national interests as well.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Rogers appears in the appendix.]

Senator HELMS. Thank you, Mr. Secretary.

Mr. Sanders.

STATEMENT OF SOL W. SANDERS, FORMER INTERNATIONAL EDITOR, BUSINESS WEEK MAGAZINE

Mr. SANDERS. Good morning and thank you, Mr. Chairman, for inviting me.

Good morning, Madam Senator and Senator Zorinsky.

I am a journalist. My interest and research writing on Mexico goes back to the 1950's. I have spent most of my career as a foreign correspondent overseas.

I would like to read my statement since it is relatively short and I think it presents the nuances of what I would like to say.

For more than half a century, since President Franklin Roosevelt met President Lazaro Cardenas secretly on the eve of World War II and made agreements, the United States has had the luxury of being able to treat Mexico with, to quote Senator Moynihan's phrase from another context, "benign neglect."

During that period, Mexico has been a neighbor we could forget. It made remarkable progress. It was an exotic playground for our tourists. It supplied us with cheap goods and labor. And in recent years, it was our third or fourth market.

We have had a relatinship more of indifference than of interest and accommodation. This will no longer be possible.

Mexico is now in the greatest crisis in her history—economic, social, and political. Mexico, in the near future, must have a high priority claim on the attention of our policymakers, more informed attention from our media, and more serious study from our academic community.

Mexico is in crisis because a regime designed in 1923 for a largely rural, isolated, feudal Mexico of 15 million people, has fossilized. While the nation's population exploded and rushed into the modern world of instant communications, the political system atrophied.

Mexico's present 80 millions, soon to be 100 millions—largely urbanized with a growing lower middle class—no longer can be governed by an oligarchy masquerading as a revolutionary leftist regime.

A president-emperor with more relative power than any executive in the modern world—with perhaps the exception of Kim Il Sung in North Korea—is an anachronism in 1986.

Cities of over a million, some a 1,000 miles from Mexico City, can no longer be effectively governed by a highly centralized regime designed for a Mexico of the burro and the hacienda.

So far, Mexico's official leadership shows little ability and less willingness to seek new solutions, even in the face of a collapsing economy and growing political dissidence. That, unfortunately, must be our concern.

With a 2,000 demilitarized border, what happens in Mexico is our problem. Mexico's difficulties, as earlier witnesses before this committee have laid out in detail, impact on our domestic scene in a way no other country in the world affects us.

Very quickly, Mexico's crime, her drug scene, flagrant corruption, growing political instability, exploding population and mushrooming unemployment become a part of our overall preoccupations as well as Mexico's.

That, of course, is true in reverse. To use that old cliche, but so appropriate here, when we take a deep breath, Mexico catches cold. And one cannot exaggerate, whatever the rhetoric to the contrary below the border, the impact of what is said here. There is no opinion expressed, no intellectual fad publicized, no statement of policy made in this capital which does not have its immediate echo in Mexico City.

Unfortunately, the history of American intervention in Mexico has left its scars, as well as abundant evidence of failure. But increasingly, our policymakers will have no choice but to take a more activist line toward Mexico and its problems.

What I am urging is that time, attention, patience, and deep consideration be given to any initiatives.

Willy-nilly since 1982, we have already adopted a long-term strategy toward Mexico. We have moved to do whatever seems necessary to bolster the present regime as it grapples with the greatest economic crisis in its history.

I would argue, however, that it is a mistake to see Mexico's current financial problems in an econometric vacuum. The root of Mexico's economic crisis, its growing inability to pay the $100 billion external debt, its austerity policies which have brought on stagnation in the face of its need to produce a million new jobs a year, and its roaring inflation, are ultimately the product of a political crisis.

When former President Jose Lopez Portillo chose the demagogic route, nationalized the Mexican banks in 1982, along with the dollar deposits of Mexican residents, he brought on a crisis of confidence that still dogs the regime. President Miguel de la Madrid's administration has refused to reverse the bank nationalization, and a host of other economic policy misfortunes inherited from his predecessors.

Ironically, that is despite the fact that President de la Madrid, his Finance Minister, and the current Governor of the Central Bank all were opponents of bank nationalization.

Most specialists believe that Mexico lost as much as $6.5 billion last year in capital flight. Unless confidence is restored, unless political confidence is restored, unless Mexicans again believe in the future of their country and their economy, in a future with rational economic policies based on a return to a strong private sector and market processes, that capital flight will continue. Such programs as the presently contemplated $6 billion in new money from the bank creditors, the IMF, the World Bank, are only band-aid measures. They do not treat the fundamental problem of confidence of the Mexican wage-earner, the entrepreneur, the investor, who, historically, have given Mexico one of the highest savings rates in the world.

Nor will it be possible for very long to ask the Mexican people for continued sacrifice, to live with stringent budget economies and cutbacks in imports, with a deteriorating standard of living, while it continues to pay its external debt, unless the regime undertakes a radical transformation of its political approaches to its problems. And that, I believe, persuading the Mexicans to move quickly toward dramatic reforms, has to be the thrust of our policies.

Thank you very much, Mr. Chairman.

[The prepared statement of Mr. Sanders appears in the appendix.]

Senator HELMS. Thank you, Mr. Sanders.

Ms. Thorup, you may proceed.

STATEMENT OF CATHRYN L. THORUP, DIRECTOR, UNITED STATES-MEXICO PROJECT, OVERSEAS DEVELOPMENT COUNCIL

Ms. THORUP. Mr. Chairman and distinguished members of this subcommittee, I appreciate the opportunity to appear before you this morning to testify on United States-Mexican relations.

I will summarize my written testimony and ask that it be included in the record.

Despite the genuine personal interest of President Reagan in a strong, positive relationship with Mexico, and despite the presence in Mexico of the most pro-United States, pro-private sector president in 15 years, United States-Mexican relations have followed an erratic, but ultimately downward, spiral since the rupture of the Mexican economy in August 1982. Today, we face tension in every major area of the bilateral relationship.

The results of Mexico's rediscovery by United States policymakers and the American public at large belie the notion that it is necessarily beneficial to be at the top of the United States agenda. Mexico's current high profile derives from its disagreements with the Reagan administration.

There is a tendency in the United States to view our problems with Mexico as residing at the Mexican end of that bilateral relationship. As a result, our current policies are jeopardizing the very political and economic stability of Mexico, as the United States comes to constitute yet another pressure on a government that is facing growing and competing demands with ever scarcer economic and political capital.

Our overall foreign policy toward Mexico is in disarray. We are bouncing back and forth between brinkmanship and damage control. In my testimony today, I would like to examine the dangers inherent in our current approach.

These hearings come at an especially difficult time for Mexico, a nation in its fifth year of economic austerity and on the eve of potentially difficult state and local elections.

The political system of Mexico has remained stable, largely because it has been able to provide goods and services, thanks to a long history of average yearly growth rates of 6 percent. But, today, real wages are lower than they were in 1965. The standard of living has dropped 30 to 40 percent since 1982, and the forecasts are for up to 100 percent inflation and negative growth of 3 to 5 percent for 1986. A political system that does not deliver cannot survive indefinitely, and without growth, the Mexican Government cannot deliver.

The Mexican Government has carried out many of the reforms required by the international financial community. But a clear appreciation for the difficulty of these efforts has been lacking in the United States. The rewards for adjustment have failed to materialize.

The United States economy suffers when Mexican growth declines. United States jobs are lost; United States exporters lose; United States firms with investments in Mexico suffer; and United States commercial banks face a greater chance of a suspension of interest payments. There is, thus, a common interest in growth with equity in Mexico, and it is clear that the United States Government needs to play a critical role as interlocutor between the Mexican Government, the international financial institutions and the commercial banks in order to resolve the debt crisis, the key issue overshadowing the bilateral relationship.

Mexico is not looking for sympathy; it is looking for money. Without it, the Mexican Government can neither implement difficult reforms nor fuel growth. And a return to growth will go far to ameliorate a whole series of problems that confront our two nations and which are married to economic decline in Mexico.

Additionally, there is a direct link between economic development in Mexico and political opening. Economic crisis creates pressures for political reform; but implementation of those reforms requires an environment of confidence and growth. There is significant domestic pressure for political pluralism in Mexico and encouraging signs of progress toward an internal reallocation of power in the new-found strength of the Mexican Congress, the growing articulation of Mexican civil society, and the now more open public debate.

The Mexican political system will never mirror our own, and it will close ranks in the face of external prescriptions and pressure for change. And authoritarianism, not democracy, will be the more likely result.

The United States role in the process of political opening in Mexico should be an indirect one of creating the economic space for political development. The United States will damn the process of political reform in Mexico if it tries directly to influence its speed or its content.

United States policymaking toward Mexico is fragmented. As domestic and foreign policy issues become increasingly interwoven and as the stakes increase, more actors, both public and private, demand a say in policy formation. As each agency pursues its own particular interests with regard to Mexico, certain domestic constituent interests may be well served, but general United States interests are not. The overall relationship becomes hostage to parochial concerns.

Additionally, in the absence of a general coordination of United States policy toward Mexico, there is no entity to evaluate, assign priorities to, or regulate the flow of demands we place on the Mexican system. The cumulative impact on Mexico of these ad hoc pressures is tremendous and potentially damaging to our long-term interests.

Our policies have directly reduced President de la Madrid's room for maneuver. Tough United States policies have so polarized both the bilateral and national debates that the position of those Mexicans who support economic liberalization and political reform has been undercut. Pressure is building for de la Madrid to take a harder line in his negotiations with the United States. If it is not our responsibility to make life easy for Mexico's rulers, neither is it in our interest to back them into a corner.

Today, almost any action by either country is an irritant to the other. Those who say that this is in the very nature of United States-Mexican relations sell our two nations short. We are capable of better.

There are indications that a more enlightened policy is on the horizon. Considerable momentum has been generated once again for the establishment of formal bureaucratic mechanisms to coordinate United States policy toward Mexico. There is a growing sense in both public and private circles that Mexico is, indeed, a special case for the United States.

Allow me to make two concrete suggestions for improvement in the relationship.

First is the formation of a United States-Mexico Eminent Persons Group that would meet informally, but regularly, over the next 2 years to analyze the major challenges confronting our two nations.

Second, we need to enhance the prospects for dialog between the successor generations of both our countries. A significant increase in United States public and private funding for two-way flows of students between the United States and Mexico and grants to United States studies programs in Mexico would make a very significant contribution to our future relationship.

In conclusion, the United States and Mexico still face the prospect of a long, hot bilateral summer. But, like the hangman's noose, crises have an uncanny way of concentrating the mind.

It is time for the United States to play it smart with Mexico. U.S. long-term interests in economic and political development in that country are best served not by ad hoc muddling and meddling, but by an enlightened, coordinated, and farsighted U.S. policy. Such a policy has long been recognized as necessary, has been repeatedly and unsuccessfully attempted, and has never been so critically important as it is today.

Brinkmanship is a risky tactic. Without an adequate conception of both the problems and the prospects, both nations will be forever scrambling to extinguish successively larger bilateral fires.

It is not surprising that there are many divergent, as well as convergent, interests in two countries of such diverse cultural roots and asymmetrical political, military, and economic power. But we must not allow ourselves to be distracted from the broader interest each nation has in Mexico's sustained economic and political development. For the United States, great power must be tempered by even greater tolerance and responsibility.

Mexico should be at the top of the United States agenda, not for sensationalist reasons, but because the health of the United States economy is inextricably linked to the health of the Mexican economy, and because the ramifications of neighborhood present our two countries with a myriad of both unavoidable challenges and tremendous opportunities.

Thank you.

[The prepared statement of Ms. Thorup appears in the appendix.]

Senator HELMS. Thank you very much.

I suggest now that we go by the clock, with 10 minutes for each Senator for the first round, if that is satisfactory for the Senators.

You may start my clock.

First of all, a question was sent up to me that I think is relevant—and this will not include you, Ms. Thorup.

Does any of you represent Mexico or any part thereof or Mexican businesses?

Mr. ROGERS. No.

Mr. DOUGLAS. No.

[Mr. Sanders nods negatively.]

Senator HELMS. Mr. Sanders, you don't?

Mr. SANDERS. No.

Senator HELMS. Your law firm doesn't, Mr. Rogers?

Mr. ROGERS. No. In the past we have, but we do not represent any Mexican interests whatsoever now.

Senator HELMS. At this point.

Thank you very much.

Ambassador Douglas, you served with distinction as President Reagan's Ambassador for Refugee Affairs. From the perspective of that experience, how do you view the situation in Mexico, particularly with the illegal aliens coming into this country, compared to other countries which produce quantities of refugees?

I guess what I am getting at is this. Do you consider illegal aliens to be refugees?

Mr. DOUGLAS. No, Mr. Chairman, I do not consider economic refugees to be refugees under the U.S. law. The refugee situation, as it relates to Mexico, very briefly, falls in at least two categories. One is what I would call a passthrough, people coming north from Central America. Second is the refuge that Mexico has accorded to persons fleeing Guatemala and El Salvador.

The confusion in the public mind about who is a refugee and what is a refugee continues to find place in print. Although economic refugees are not refugees under our law, given the reports of electoral fraud and some violence and intimidation during elections in the north of Mexico over the last 18 to 24 months, I would not close out the possibility that should such actions continue or increase, Mexican citizens might assert a legal right under United States law to seek refuge in the United States under the terms of the Refugee Act of 1980.

I would consider that to be a very grave development for any number of reasons, and a major political problem in our bilateral relationship.

Senator HELMS. It has been said many times here this morning that the United States policy with respect to Mexico is inconsistent.

Do you agree with that?

Mr. DOUGLAS. Well, I would say that I am not quite sure what United States policy toward Mexico is, Mr. Chairman. If there is no comprehensive policy, it is very difficult to say that it is inconsistent.

Senator HELMS. Well, I guess that compels one to ask you if it is possible to have a comprehensive and cohesive policy, given the circumstances of the one-party system there.

I know, Mr. Rogers, that I sort of put your teeth on edge with my statement. But this is precisely what I am trying to get at.

How can we have a consistent and cohesive policy with the kind of regime that Mr. Sanders referred to, and others who have appeared before this committee?

I have heard all sorts of criticism of the witnesses who have appeared in our previous Mexico hearings. There has been attacks upon them, attacks upon their character, news reports that this figure or that figure has apologized for misstatements or inaccurate statements, and yet, I know of no apology. There may have been some stroking, but that's about all.

But how do you have a cohesive and comprehensive policy with the kind of attitude that Mexico has?

Nothing would please this Senator better, than to have such a policy. I have been on this matter since 1982, at the time of that bailout—and the record is replete with statements that I have made and inquiries that I have registered, and all of these have been just like ships passing in the night. Nobody pays any attention to them.

So I have to reject the notion that all of a sudden there is an interest in Mexico. I have been interested in Mexico for a very long while.

But how do we have a policy? I will throw that open to all four of you.

Mr. ROGERS. Well, let me say one thing about how we may have a policy.

Senator, I think we cannot have a policy by denunciation before the media as to colossal defects, alleged colossal defects of the Mexican political system by the Congress of the United States.

I can think of no worse place to attempt to hammer out a consistent, coherent, effective U.S. policy than, if you will, this hearing room.

If we have a policy, we have to base it on known and defined objectives.

Our objectives in Mexico ought to be, it seems to me, to do everything we can to further and support the positive pressures in Mexico toward political, economic, and social development in this moment of severe crisis within Mexico.

It seems to me that attacks on the Mexican political system, and particularly attacks on the Mexican Presidency and its honesty and candor toward the Mexican people, are bound to be counterproductive to that very objective, and in two respects.

First, it drives responsible Mexican officials into intoxicating nationalistic positions of resentment and hostility.

I was in Mexico for several days after the first session of this committee's hearing. I was witness to the extraordinary demonstration that occurred in the downtown streets of Mexico.

Senator HELMS. These were orchestrated demonstrations. This goes on all over the world.

Mr. ROGERS. Well, they were orchestrated to the extent that, except for the PAN, the leadership of every political movement in Mexico was unified in the front of that demonstration, including the extreme leftists of the Mexican political scene, and there are some. It was unprecedented to find them occupying common ground with the moderate leadership in the center of the Mexican political spectrum.

That is what that demonstration showed. And we are going to have the same thing, I think, after this hearing here today.

The second thing is that it removes, as Cathryn Thorup suggested, the maneuver room for those who want to move Mexico in the right direction. There are strong incentives, strong pressures, within the Mexican political system for opening it, for making it more pluralistic. There are strong pressures and desires within the Mexican economic system to open the Mexican economic system to the outside world, to outwardly orient it as the common phrase has become.

I fear that media events of public officials attacks on Mexico is precisely counterproductive to those healthy objectives, which we ought to be supporting.

Senator HELMS. Well, let me tell you, Mr. Rogers, you would be surprised at how much mail I have received from Mexico, hundreds upon hundreds of pieces of it, from people saying hooray for you, finally somebody is taking note of what is going on down here.

Now, I say again that demonstrations can be orchestrated very easily by one-party governments, by socialist governments.

Do you deny that it is a one-party government down there?

Mr. ROGERS. I deny that it is a monolithic political system.

I represent to you, I state to you that there is very considerable pluralism within the PRI party itself, that it represents a wide variety of interests, which is the very reason why it has been, if you will, Mr. Chairman, the most successful political system in Latin America for the last 50 years.

There has been no country which has been as free of political discontinuity as Mexico. The PRI system has worked. It has represented wide varieties of interests—the entrepreneurs, the labor unions, the peasants. There is considerable ground for belief that it has to reform itself and move ahead and open up, as, indeed, every political system does.

There is no political system which is perfect for all time. But the PRI system and the system that Mexico has adopted has been the most successful in all of Latin America for most of our century.

Senator HELMS. That is a novel statement.

Since the yellow light is on and since Senator Zorinsky has left, let me say that Senator Kerry, you have been here for a while. Do you have any questions?

Senator KERRY. Unless my colleague Senator Dodd wishes to go first——

Senator DODD. No, no. You go ahead.

Senator KERRY. Thank you.

Needless to say, there are hundreds of questions on which we could focus regarding Mexico, and certainly I think this committee and the Congress ought to be spending more time doing so.

I only want to ask you about one area for a moment, because it is an area of current concern. Increasingly, the linkages appear to be clear between a number of nations in Central and Latin America.

If none of you feel qualified to address this issue, please say so and that will be that.

But, Mr. Rogers, particularly from your experience as an Assistant Secretary and as the person responsible for inter-American affairs, I wonder if you could comment on how you perceive the current situation with respect to drug trafficking from Mexico, and how that may be affecting us.

Assistant Secretary of State Abrams appeared before this subcommittee and he said: "It could get to be too late for Mexico if they did not address the problem of narcotics-related corruption soon."

I wonder, do you have any observations about that problem that you would like to share with us?

Mr. ROGERS. Well, Senator, I am not a very good witness on the extent of corruption within Mexico occasioned by the drug traffic. I am prepared to accept that such corruption exists, as, indeed, it exists in every country, including our own.

I can say that I embrace all of those who cite the drug traffic moving through Mexico as well as other countries in Latin America to the United States as one of the most extraordinary problems that the hemisphere faces.

It is a true crisis. The word is not overstated in this particular context.

To resolve and meet that crisis is going to require extraordinary efforts on the part of all of the nations who are affected by it and will call for the most extraordinary commitment of resources, energies, good will, and cooperation in that effort.

I think it is fair to say that no country has been adequate in its response to the crisis that we presently face, including our own.

Senator **Kerry**. I wonder if we can get a little more specific because part of the problem, I think, is that everybody is always standing up and saying that this is a serious problem and we need extraordinary efforts, and Attorney General Meese has now met, I think, with the Mexican Attorney General to see if additional coordinated efforts could be undertaken.

Based on your experience, or just practically speaking, what would you suggest are the steps that make up those extraordinary efforts? That is my first question.

My second question is can Mexican officials, particularly given the state of their economy and the dependency of many people within it on the drug trade, given that fragility, can they take the steps extraordinary to control drug trafficking? What are those steps specifically, given the epidemic proportions that this is reaching?

Mr. **Rogers**. My limited expertise would suggest more money, more people, more enforcement effort, more infiltration of drug rings, more cooperation across the border, more United States assistance to Mexico is the effort to suppress the drug traffic, in a variety of forms—money, equipment, helicopters, and so forth.

I would be prepared to support, as I say, a vast expansion of the resources that we dedicate to this. But, beyond that, Senator, I am really not an expert in the field.

Senator **Kerry**. Does anybody else care to comment on that?

Mr. **Douglas**. Senator Kerry, one of the things that Elliott Abrams had in mind when he appeared before the subcommittee is something that has been an enduring theme for years, even at the time that I worked with Elliott when he was in the Human Rights Bureau, and that was our general observation that drug trafficking can gradually create a counter economy, until suddenly it equals or exceeds the legal GNP of the area where the drug traffic has taken place. I think that there must be areas in Mexico where you are probably very close to that, given the low level of cash economies in parts of the country.

Once that takes hold, the corrosive effect on the central authority of the Government is awful to behold. And while Mr. Rogers has stated that there are grave moral and factual problems with drug use and drug trafficking and transit in this country, they have not yet reached anywhere close to a cash level that would threaten to supplant the economies in any areas, except one or two areas.

As far as money is concerned in combatting drug trafficking, with Mexico, I think our experience has been that it is not just a problem of money. It is a problem of being able to have the personnel in the field who can function in a system of justice such as Mexico that is already strained to the outer limits.

You have heard more testimony and investigated more aspects of the drug trade than I have. But it seems to me that the Government of Mexico ought to have the very strongest concern for arresting that traffic before it consumes the legitimate authority of the State.

That is what I think Elliott was trying to say: Before it gets so late that the illicit cash corrupts so terribly and so deeply and that it takes a wholesale revolution, a turning on the head of the whole society, to sterilize it and turn it around.

Senator **Kerry**. Would you say that the current economic problems make it easier for that to happen or more difficult?

Mr. **Douglas**. Well, I think even simple arithmetic will tell you that as the opportunity to create wealth and cash in a society declines, available cash, even from black or unethical sources begins to tempt human beings, regardless of their country of origin.

Senator **Kerry**. Do you think, given the crop eradication program and other steps that we have tried to take, that the leadership in Mexico is serious about dealing with this issue?

Mr. **Douglas**. Senator, I really don't have that kind of information.

I think crop eradication is one thing. I think drug transiting is another. I think you have to oppose both, and I think it is going to take a very long time.

From the American side, I think it is going to take more of the kinds of very contentious statements and public pressures because the press in Mexico, for all of its occasional activity, is not the kind of investigative press, with the powers, with the funds, and the independence that will bring about a public disclosure of socially corrosive and morally reprehensible activities.

Senator **Kerry**. Mr. Sanders, did you have a comment?

Mr. **Sanders**. Senator Kerry, I want to say the obvious, but I think it has to be said. It is that these problems are obviously totally interrelated. If the estimates that I have had, that we will apprehend 2½ million illegal entrants on the southern border this year is true, and for everyone who gets in—and you can pick your own figure, even talking to people in the Immigration Service, of one, two, three, or four additional people actually coming into the country—with that kind of movement back and forth, then, obviously, the drug traffic is going to increase, particularly at a time when living standards are falling radically in Mexico. This is, along, by the way, with other kinds of crime.

Senator **Kerry**. Well, I am not going to ask further questions on this right now, Mr. Chairman.

But I just want to say that I think your efforts on this and I think the committee's efforts are awfully important.

I think this has been an understated, underexamined, underexposed problem. As I have been trying to learn things about it with respect to other areas of the world and other countries, I am finding linkages and conspiracies and wholesale combines between countries even involving law enforcement agencies, which surprise even me, as a former law enforcement official who started a drug task force and has been involved in the process of fighting it.

I think it is reaching epidemic proportions of such a nature that the very corrosive process that you talk about, where it takes over, has not only occurred in too many countries, but threatens to occur in a lot more and threatens the very foundation of our ability to conduct an effective foreign policy.

I hope this committee and others are going to continue to pursue this subject to the fare-thee-well because if we do not, I think we are in for some very, very rough sledding.

Thank you, Mr. Chairman.

Senator HELMS. I thank the Senator.

Senator Kassebaum.

Senator KASSEBAUM. Thank you, Mr. Chairman.

I would like to just follow on the same line for a moment, because it has been raised frequently.

President de la Madrid has said that drug trafficking is an international crime.

I have always believed we have done very little in this country, compared to what we could do, to really get a handle on stemming the demand. Supply is going to feed that demand.

When we talk about the cash corruption, it exists in this country as well.

I personally feel very strongly that it is going to undermine not only policy, international policy, but our own domestic fabric. I think we can worry, and should worry, about drug trafficking, but I think we must do more, to look to our own domestic handling of this situation before we can point too many fingers abroad.

I would like to focus a bit on the economic situation.

Assistant Secretary of the Treasury Mulford, when he testified here, listed several things as to how he believed the Mexican Government was working in a very positive way.

All of you are very familiar with the economy there, and I would like your assessment of his belief that the de la Madrid administration was continuing the divestiture of State enterprises, reduction in direct subsidies to parastatals, reduction in Government subsidies for basic goods and services.

Do you feel, as a matter of fact, that this is an ongoing and positive effort that the administration is trying to take at this point?

Could they be doing more at this point?

That is one question, and if I may, I have a second one to which I would like you to respond.

Also, I believe about 70 percent of the revenue of Mexico at this point has been in their oil moneys. With that drop, it has had, of course, a significant impact.

However, with the billions that came into Mexico at the time of prosperity in the oil markets, what has happened to all of that money? Has it been effectively used?

Those are my two questions. Who would care to respond?

Mr. DOUGLAS. Do you want to start?

Mr. ROGERS. Well, Senator, I will say a few things.

First, there has been progress, indeed, as Secretary Mulford suggested, with respect to two major areas.

One, the reduction of the large role of government in the economy, particularly in the productive sector.

A new policy has been announced and, indeed, measures have been taken already with respect to that highly important objective.

Second, with respect to the necessity to reorient Mexico's economy outwardly, if you will, by reduction of protectionism, reduction of subsidies for domestic production, and, most importantly, the management of a realistic exchange rate—I underline the importance of a realistic exchange rate because when it is unrealistic, it contributes not merely to a lowering of the incentives for exports and increasing the incentives for imports, but also accounts for a large share of the capital flight that does occur from countries. Progress has been made in that respect as well.

Your question really was is it enough. Well, I think all of us really would like to see more movement in both of those directions.

Senator KASSEBAUM. Well, I meant is it enough in light of what it is really that they can realistically do at this moment.

Mr. ROGERS. Well, with respect to the first point, I think there is considerable that the Mexican Government has to do; that is to say, by way of reduction of the Government share of the productive sector of the economy, privatization, if you will, of production enterprises.

There are a lot of things that government should continue to do such as providing certain human services.

But the reduction of the Government role in the productive sector of the economy is important.

There are certainly political difficulties in moving rapidly on that front.

My own judgment is that there are strong incentives and pressures within the Mexican system itself to continue the process.

I think we are going to see progress on that front not as a result of external pressures and lecturing, really, but, rather, as a result of the internal dynamic within the Mexican system.

Mexicans are realizing, as indeed are the economic leaders of the rest of the hemisphere—Brazil, Argentina, et cetera—the importance of effective market economies. I think that lesson is having its effect, and I think we will, therefore, see continued results. But, as I say, I think that will largely be the result of the internal dynamics of the situation, rather than external lecturing.

Senator KASSEBAUM. I would like some answer on the oil revenue question and the dependence, evidently, that the Mexican economy has had on that revenue.

Mr. ROGERS. Well, the drop in oil revenues has truly been disastrous for Mexico, far beyond anything anticipated by any of the projections on which the previous debt adjustment programs have been based.

It, therefore, has reduced Mexico's total export revenues by about 25 percent, if I recall correctly.

Clearly, Mexico has to make up the difference in terms of additional exports, and that means additional incentives to exports, as I say, first in terms of realistic exchange rates and various programs for promotion of nontraditional exports, and so forth.

It really is a crisis and one that is going to take a massive effort on Mexico's part.

Senator KASSEBAUM. Well, during the 1970's and all of the revenue that came in, in the middle of the period of the 1970's, did that really move into the Mexican economy in a way that helped build roads and other things? What happened with all of the billions that came in at that time?

Mr. DOUGLAS. Well, there is nothing unique about Mexican society and the ability of its government to wrongly allocate resources. Some of that you can notice everywhere.

I think, Senator Kassebaum, that it would be accurate and probably understated to say that there was a large new program of infrastructure improvement and expansion, of roads, hospitals, and schools. But there was a more expensive program of building and equipping new industry and not paying adequate attention to whether there was an international marketplace to sustain them. They were matters of pride, they were often pet programs. Clearly, there was a great deal of money wrongly paid out as salaries and honoraria or simply skimmed off over the period of the great oil price boom.

On your question about the nationalized industries and President de la Madrid's selling them off or trying to reprivatize them, I do not think it would be accurate to question his desire to do that. I have looked into this question over the last 18 months, certainly since returning to private life and have talked it over with my friends in the Mexican Government and in private business. But President de la Madrid starts at the low end and sells off the losers, and, as you move your way through the programs, there are some things that just are not even being discussed that have huge cash requirements, such as the airlines.

If you look at the United States, we have permitted Mexican businessmen to come in and buy United Press International, and looked the other way while Mexican companies owned television stations inside the United States. What do you think de la Madrid's response would be if American Airlines wanted to buy Mexicana, which might be a very rational and revenue positive thing to happen in bringing tourists and services to Mexico?

I think it would be a politically difficult, if not impossible, thing to see happen.

I think that it is important—and I probably differ with Mr. Rogers on this point that American businessmen and leaders, preferably on the private side rather than the government, continue to argue strongly for the privatization of Mexican nationalized business, and a very flexible case-by-case judgment on what the foreign equity in that would be, based on benefit to the Mexican people, and what the track record of the foreign partners may be.

There is not any general answer to this problem area other than that you have to watch out for the mirrors, because all politicians are good with mirrors.

Senator KASSEBAUM. I am about out of time, but I wanted to comment on one other thing.

You mentioned education. It seems to me that education, particularly of skilled laborers, is terribly important. When you have a population of 80 million, I believe, of which half are age 15 or younger, obvious this is a real recipe for enormous instability in the future, unless there can be a very constructive education program for a skilled laboring class. Whether business in cooperation with government can undertake this seems to me to be a real key, and something we have not touched on.

Mr. DOUGLAS. Well, it is something the Europeans, the international lending institutions, and the Japanese could help with.

It is one thing to sell machinery, Toyotas, and textiles into Mexico. It is another thing if, perhaps, some of their foreign business suppliers would look at possibly making grants and building schools, to return a little bit into Mexico that they have taken out.

The United States always has and continues to do that.

Senator KASSEBAUM. Thank you.

Senator HELMS. Senator Dodd.

Senator DODD. Thank you, Mr. Chairman.

First of all, I want to commend you, Secretary Rogers, and you, Ms. Thorup, for your excellent testimony.

Mr. Chairman, I would like to ask for unanimous consent that an op-ed piece by Alfred Stepan, who is an excellent political scientist and Dean of the School of International Public Affairs at Columbia, on Mexico, be included in the record at this juncture.

Senator HELMS. Without objection, it is so ordered.

Senator DODD. Thank you, Mr. Chairman.

[The article referred to appears on p. 175.]

Senator DODD. Secretary Rogers, I have made the point, and you have picked it up in your testimony, that there are only three other industrialized nations in the world that share a common border with a Third World nation—Israel, South Africa, and the United States.

While we do seem, as inevitably occurs, since we do not have hearings about planes that fly, to focus our attention on the problems that exist, I wonder if you might characterize something for me. I would ask all four of you to do this.

I am not trying to minimize at all the problems that exist with drug abuse. Obviously, too, the international debt problem is significant in its scope.

But I would like, very briefly, that all four of you characterize, in whole, the relationship between the United States and Mexico. Please summarize your thoughts on the economic, political, and cultural fronts, and characterize for this committee that overall relationship.

We will begin with you, Secretary Rogers.

Mr. ROGERS. I would say fragile and portentous.

Senator DODD. I can't hear you, I'm sorry.

Mr. ROGERS. I would say fragile and portentous. By that I mean that it is extremely easily disturbed by developments on both sides of the border. On the other hand, it is freighted with colossal implications for our interests and Mexico's as well.

Senator DODD. Thank you.

Mr. Douglas.

Mr. DOUGLAS. Senator Dodd, I live in Texas right now, and it looks quite a bit different and much closer down there.

From the perspective of government to government, I would say that it is tense, but probably that tenseness is overrated in the press, which lives on making things a little more dramatic than maybe they are. With Mexican businessmen, laborers, and immigrants who come up, you don't hear, see, feel, or sense the kind of animosity on that level with the Mexican people that you get among the elites and the intelligensia working inside the Mexican Government.

I do not say this to be dramatic or intentionally political, I just say it as an observation. I think it is easy to overrate the irritation inside Mexico toward things that we may say or do.

I think there are some things that would bring universal condemnation in Mexico, and that would be an American armed force killing Mexicans or making an incursion into Mexico.

But if you are a Mexican businessman—I don't care whether it is Monterrey, Oaxaca, Pueblo, or Guadalajara—and you have to live with that system, with its inconsistencies and problems, you become a little more tolerant for frustration boiling over, as it has in recent months on the United States side with some of these problems.

As crazy as it may sound to you, I think that the Mexican people are much more resilient and have better common sense often than their government.

Senator DODD. That could easily be said about the American people as well. That is not a unique quality at all.

Mr. Sanders.

Mr. SANDERS. Yes; I would like to concur in that.

The symbiotic relationship between Mexico and the United States cannot be exaggerated. I think small incidents, our history in the 19th century and so forth, is vastly exaggerated. The overwhelming guilt feelings of American intellectuals, particularly our students of Latin America, have exaggerated the difficulties between the two countries on personal or people-to-people relationships.

It is very interesting that the penetration of the Communist Party, for example, and Communist movements in Mexico is almost exclusively in the upper echelons of the society.

It is very important, though, to recognize that probably he did not say it, but the old Porfirio Diaz saying of "so far from God and so close to the United States" is terribly important to Mexico in every single aspect of their society.

For example, they now have a governor of the central bank who is trying to administer exchange controls. Yet, a few years ago, he wrote a very learned and very accurate monograph that demonstrated why it was impossible in Mexico, side by side with the greatest free market in currencies in the world, to administer exchange controls.

Senator DODD. Thank you.

Ms. Thorup.

Ms. THORUP. Senator, I think that, to a certain extent, it is in the interest of many people to say that everything is under control. But I do not think that we should underestimate the gravity of United States-Mexican relations at this particular juncture.

I think that government-to-government relations have never been worse, and I think that this is particularly serious, given the precarious economic situation in which Mexico currently finds itself.

If we add into that the lack of goodwill in this country toward Mexico, it makes the situation more difficult.

Mexican relations with the United States are clearly more than government to government. But if we look at public attitudes toward Mexico, I find that there is also cause for concern. I see a serious deterioration in Mexico's image among the public at large in the United States.

Hopefully, this will begin to shift.

It is possible that, as moderates in this country see how serious the situation is now, how much deterioration has taken place, that they will begin to back off, and perhaps it will not be quite so fashionable to be tough on Mexico.

I think this is very important because I think the current situation is, indeed, very serious.

Senator DODD. Do I have any more time, Mr. Chairman?

Senator HELMS. You have plenty of time, Senator.

Please proceed.

Senator DODD. Let me come back to you, if I can, Secretary Rogers.

Much has been said about the Contra issue and the Contra process, and we now have that before the House today. I feel like Sisyphus, sometimes, with these issues. They just seem to be coming back forever.

I wonder if you might comment for us on the historical role that Mexico has played in international affairs in its own region, and how you would characterize not necessarily the Contadora process in and of itself but Mexico's role within its own region, what the background of Mexico's participation has been in hemispheric affairs over the last several hundred years. Be brief, obviously, if you can.

Mr. ROGERS. Well, I think the first thing that needs to be said, Senator, is that the activist role that Mexico——

Senator DODD. You have to speak up, Mr. Secretary. I apologize, but I can't hear you.

Mr. ROGERS. I'm sorry.

The activist role that Mexico is playing at the present time, along with the activist role that other countries in the region are playing—Venezuela, and even more remarkably, Brazil—represents something of a departure from Mexican diplomatic practice.

Traditionally, in the 20th century, Mexico has been committed to the defense of principles, most particularly the principle of nonintervention, but also the principle of no atomic weapons in the region and various other principles that Mexico regarded as essential to the preservation of the national integrity of itself and other weaker nations in the hemisphere.

It did not play the kind of role in Central America in the 19th or 20th century that the United States did.

Therefore, as I say, the new assumption of responsibility and engagement by Mexico and the other countries of Latin America I would regard as something of a new chapter in the diplomatic history of the region.

Is that responsive to your question?

Senator DODD. It is, and I think that is a point that is not oftentimes made that this is almost without historical precedent.

I think, as all of you have pointed out in one way or another here this morning, what is most regrettable is the glaring lack of any appreciation in our own educational system for a nation that is as important to us as Mexico. You would be hard pressed to find an elementary or a high school in the United States today where, other than the Mexican-American War, or the Spanish American War, there is substantial reference to Mexico. I realize that it is difficult, with the amount of information necessary to transmit to students at the elementary and secondary school levels to do this. But the glaring absence of an awareness of the real historical relationship between the Americans in the United States and the Mexicans is noticeable, except in the Columbian period. Beyond that period, it is very, very sparse.

I think that too often people do not know the history. That is the problem. History begins the day a crisis begins for many people, without understanding the background that has led to that particular crisis or the role that nations have played. I think this new role for Mexico is something that most Americans are not familiar with. They think this is what Mexico has been doing for years when, in fact, it is an unprecedented action—at least in my analysis an unprecedented action—for them to have taken.

Ms. Thorup, did you have a comment on that?

Ms. THORUP. I would certainly agree with that. I think that the Mexican insistence on the Contadora process has really been a great service to United States efforts in the area as because it has made it clear that there is a diplomatic option in the region.

Mr. SANDERS. I would say that it seems to me in retrospect—and some of us said it at the time——

Senator DODD. Would you agree, by the way, Mr. Sanders, that the teaching of history in this country, at the elementary and secondary levels in the public schools, do not include this?

Mr. SANDERS. We do not teach history in this country in public school any more, Senator. We call it social studies now.

It is not just in the high schools. To have acquiesced, if not to have proposed, that Mexico lead a group of countries trying to solve a Central American problem loaded with political dynamite was an enormous mistake.

Senator DODD. Well, I was not trying to get into a debate on the Contadora. I really wanted to raise the historical question of whether or not——

Mr. SANDERS. But I think it is terribly important to say that, that Mexico did not have that kind of role.

Senator DODD [continuing]. This is unprecedented. Would you agree with Secretary Rogers analysis that this is an unprecedented action?

Mr. SANDERS. It is an unprecedented action.

Senator DODD. That's what I was asking.

Mr. SANDERS. It is an unprecedented act which we facilitated, and it was a great mistake.

Senator DODD. Mr. Douglas, did you have a response?

Mr. DOUGLAS. I would like to say that, as far as the Southwest is concerned, the teaching of history with regard to Mexico, while not being as full as we would like for it to be——

Senator DODD. I'm sorry.

Mr. Douglas. The teaching of history and geography as it relates to Mexico, both pre-Columbian, Spanish, and Independence, is probably much more widespread than it is east of the Mississippi.

So, if we are looking for wise, experienced, and sympathetic public figures, perhaps we ought to mandate that they all be drawn from the Southwest. [Laughter.]

Senator Dodd. Well, I'm not going to touch that, I'll tell you. [Laughter.]

I think Dennis DeConcini and Bentsen do a terrific job.

At any rate, I thank all four of our witnesses, Mr. Chairman, and I apologize for taking as much time as I did.

Senator Helms. No problem.

But one thing is for sure, at least in my judgment, that we are never going to stop the tidal wave of illegal aliens coming into this country, to which you alluded, Mr. Sanders, and which is of concern to all of us, until there is the kind of society in Mexico that will offer the people a reason to stay home, that is to say jobs, opportunity, and that sort of thing.

This leads right into the fundamental question, so far as I am concerned, of how do we do that.

Mr. Douglas, aside from keeping the country from economic collapse, what do you consider to be the most important task facing our Government's Mexican policy?

Mr. Douglas. Senator, I began to say in my preliminary comments that I think a sustained relaxation of the centralized control of the Mexican economy is important. Any attempt to direct the economy of such a huge and diverse country, is stultifying. It generally has worked that way recently in Mexico.

I believe that a relaxation of centralized controls, together with an encouragement of the individual private business entrepreneurial spirit of the Mexican people, if coupled with adequate funding and foreign capital and tax law reform inside, would be the best avenue for creating jobs so that people could stay in their own country, and lead a free and prosperous life with some hope for their future.

But it is not going to be just any one thing. The elements of the current situation are interrelated, unfortunately, and that gives you avenues for escaping responsibility.

Senator Helms. So what you are saying is essentially what Senator Gramm said here last week and what I have tried to express in these hearings. Free enterprise is not a cliche. It is very real, and you could look at where it prevails, and you see what has happened in terms of opportunity.

Now, in Latin America, the church and the phenomenon of liberation theology both have had a significant impact during the past 5 years.

Have you noticed a similar development inside Mexico?

Mr. Douglas. Well, I am not a keen scholar of theological trends.

I can say that over a 3- to 4-year period, I have seen, heard, and met with more and more clerics and laymen who are interested in and who are in possession of written material on either base communities or liberation theology. It tends to be more Mexico City and south than it does Mexico City to the north. It is hard to get a clear reading on that when you talk to the Government, given the really quite strict doctrinaire separation that has existed between the Governments of Mexico in modern times and the church, that is the Roman Catholic Church.

Senator HELMS. What is the attitude of the de la Madrid administration in terms of its economic policies? Does the de la Madrid regime recognize that socialism does not work? Do you see any hint of that?

Mr. DOUGLAS. Well, that is a question that I could not answer conclusively.

I have had discussions with some of the brightest young technocrats and managers who serve in Mexico. Some of them were educated in France or at Yale. Some of them are doctrinaire and believe in Marxist models. Others do not. But there is a cohesiveness among Mexican political elites that absolutely does not exist in the American Government.

Whatever their reservations, you have to hold their trust and be rather close to them before they ever confide their private views should they diverge from their President.

Presuming to put myself inside President de la Madrid's mind, I would suspect that his training and his experience would tell him that he needs to decentralize and move away from some of these models that have not worked for Mexico. The consequences for Mexico is his principal concern. Whether they work any place else is neither here nor there.

But the political costs and the time required to manage that privatization movement without political, organizational and structural damage to the ruling party becomes very complicated when you have numerous three-alarm fires going on your block.

Senator HELMS. Let's get down to a few specifics.

Can you confirm that local politicians in Mexico, such as mayors, as well as State Government and Federal Government officials serve on the boards of the approximately 1,000 State-owned or Government-owned corporations?

Mr. DOUGLAS. Well, it is my understanding from 20 years of business in Mexico, that there is an overlapping of such positions. I could not give you chapter and verse.

Senator HELMS. Well, they draw salaries from the companies as well as from the governments, isn't that correct?

Mr. DOUGLAS. I would say, Senator, they probably live with the salaries from the companies because the remuneration within the Mexican public service is historically inadequate to sustain life.

Senator HELMS. Would this have any bearing on what appears to be obvious, that there is not any great enthusiasm on the part of the regime in Mexico to privatize these corporations? Oh, there have been a few. But so many political figures are getting their sustenance from these Government-owned corporations.

Mr. DOUGLAS. Are you asking me, Senator?

Senator HELMS. Yes, sir.

Mr. DOUGLAS. I suspect that you would have problems along those lines, although I would hasten to say that in times past, persons holding political, civic offices had associations of some sort with businesses, even when they were not in the public domain.

I don't think you ought to link the privatization or denationalization of businesses absolutely with opposition persons who are in public life. It is probably true that State-owned enterprises are less concerned with profit and, therefore, your check would keep coming regardless of whether you were making any money or not.

Senator HELMS. Well, as a matter of fact, these corporations are losing money anyhow, aren't they?

Mr. DOUGLAS. Well, "losing money" is a kind of term that we laymen use. Accountants and economists often can find ways around that.

They don't seem to be making a profit, though.

Senator HELMS. If you pay out more than you take in, that is a loser as far as I am concerned.

How much of the Mexican Government budget is devoted to sustaining these corporations which are not making a profit?

Do you have any figures?

Mr. DOUGLAS. I wouldn't know. Maybe one of the other panelists would, though I would doubt if they know.

Senator HELMS. That is an unfair question.

I have heard a lot of people from your part of our country talk about the political consequences of massive immigration, the consequences on and to our country.

What impact will Mexican immigration have if it continues on our demography in the near future?

Mr. DOUGLAS. Well, in Texas, you already see a progressive Hispanicization or Mexicanization of large parts of the territory. It really is not possible to sustain annual movements into the millions, even if there are only several hundred thousand residual after 4 or 5 years, of the original group who came, without changing the demographic base of the country.

I know that in Texas, with our own budget problems, while there is enormous sympathy for the economic hardship that the decline in oil price has in Mexico, may I hasten to say for the purposes of this panel that it has not brought cheer to the economy of the State of Texas, either. As these people will continue under some possible legislation pending before the Congress to gain permanent resident status and then citizenship, I think that you will change the politics of an area.

It concerns me only insofar as it complicates the ability of the United States to lay out policies and enforce those policies in a very large border area. When you have families that transcend a border, many of whom are not legal, but who are, nonetheless, human beings with families and concerns and relatives, it does bring about a kind of compromise that, in some circumstances, might be difficult to manage.

Senator HELMS. Well, you anticipated my next and last question on this round.

Senator Murkowski.

Senator MURKOWSKI. Thank you, Mr. Chairman.

By the way, I noted the editorial in the Washington Post this morning and I think that was a cheap shot. I happened to be here when you made that comment, and as far as I am concerned, it was certainly taken out of context. I wanted to make my statement on that known.

Senator HELMS. I thank the Senator.

Senator MURKOWSKI. I think as you reflect on what is occurring here today and the merits of these hearings, you come to the realization that we do not necessarily have the most clear, distinct policy toward Mexico. That policy is really probably being formulated now. One could look back to 2 or 3 years ago, when the oil money was coming into Mexico, and the tremendous ambitions of the Mexican Government as to what that would mean, to increase the standard of living in Mexico. They were seen as a model debtor nation. But within a relatively short period of time, that has changed dramatically. Today we are looking at an indebtedness of $100 billion or thereabouts, both private and public.

The question is, what type of policy should we have as we examine this and other concerns: Production of drugs and various other situations that concern us.

My question specifically is this. As you reflect on this transition, going from a situation where we anticipated great prosperity to one of growing economic problems, do you see a continuing deterioration before the situation turns itself around?

You cannot predict the world oil price, obviously, but the Mexican Government has made a very responsible effort to try to meet its obligations. The devaluation of the peso is a good example. They really took some hard knocks. But things still seem to be deteriorating.

Just how far do you anticipate the situation might continue before we see a turnaround? Because that, I think, reflects on the merits of this hearing and the chairman's intention of contributing to helping the administration formulate a policy toward Mexico.

Mr. ROGERS. I will say a word about that, Senator, if I may.

It depends in large part on the oil price. The fact that Mexico was, until this year, regarded as the model adjusting country in Latin America and the fact that it fell out of that position, the fact that it ran into economic heavy weather in 1986, was a reflection, clearly and simply, of the collapse of the oil price.

If you assume that the oil price is going to go down even further, then you have to project continued difficult times for Mexico.

If you assume, as I think most economists do, that the price is bouncing along at about the bottom now, and that it is going to be someplace between $10 and $15 and may well strengthen over the next several years, then Mexico has a good chance to turn around.

I think, as you point out, that Mexico has taken some major measures with respect to the adjustment process, and is continuing to do so.

I think we should not be utterly pessimistic about Mexico's economic prospects in the future.

Senator MURKOWSKI. Thank you.

Mr. Sanders, did you have a comment?

Mr. SANDERS. Senator, some of us feel that the oil problem was a blip, a very big blip, but a blip; that is, the escalating price and the drop in the price.

The Mexican economy was headed for big trouble.

Senator MURKOWSKI. Before that?

Mr. SANDERS. Before that.

It seems to me that the problem is this: Granted that they have made some very tentative movement toward market economics, toward liberalizing the economy; they have been very small. The question is are they going to move fast enough.

If they don't move fast, and they don't give a shock treatment to the Mexican economy, there will be no return of flight capital.

Most of us estimate that more than half of the $100 billion debt—if you want to say it that way and I think you will understand what I mean—is owned in foreign banks by Mexican residents.

Now, it seems to me that the beginning and end of a Mexican economic policy is how to get that money back and how to staunch the flow. This can only be done by a return of confidence.

Most Mexican technocrats, 10 years ago, believed that Mexico ought to join GATT and liberalize her trade processes. They negotiated a very good entry proposal 6 years ago. They have finally gotten around, in the last year, to talk about actually going ahead and entering GATT. But the GATT entry is not going to have anything to do with this crisis. It may have something to do with a crisis in the 21st century, but it is not going to have anything to do with this crisis.

So, if they do not move to welcome production sharing on oil, to stop interfering in the foreign exchange markets, to suspend the foreign investment law, to welcome any program to get Mexican capital back, to do all of a wide range of things which are under consideration in the Mexican Government, if they do not do those quickly and in a package, I don't think they are going to be effective.

If they do them one at a time over the next year and a half, then the crisis will continue to deteriorate.

Senator **MURKOWSKI**. Would you include denationalization of companies in that?

Mr. **SANDERS**. Of course, and closing down some of them. All of these things involve tremendous political pain, there is no doubt about that.

But I believe that for a large number of reasons, social and political in Mexico, the Mexican Government has the ability to do that if there is will and leadership to lead the charge.

Senator **MURKOWSKI**. Ms. Thorup, would you comment, please?

Ms. **THORUP**. Yes.

You asked whether things will get better before they get worse, or worse before they get better.

I think a lot depends on U.S. public and private sector actors. I think that there is now a growing awareness that our fortunes are tied in with Mexico's fortune or ill fortune, and I think that the one main issue that is confronting us is the debt question.

If we can get some movement on the debt question, then perhaps we can move along in the process toward easing the way for growth and recovery in Mexico. I think that is the major issue confronting our two countries right now.

Mr. **DOUGLAS**. It may be the only issue if you live on the east coast, but it is not the only issue if you live on the Mexican border.

Senator **MURKOWSKI**. I can understand that. And that leads me to my next to the last question, very briefly.

As we observe the process that is occurring in Mexico, the transition—if it is a transition—involves the difficulty of coming to grips with the necessary moves that are going to have to take place; moves which probably dictate an even greater sacrifice to be made by the Mexican people, people whose standard of living has already declined substantially as a consequence of the economic situation there. Then we observe a new phenomenon, the availability of profits through marketing drugs, which offers relief from the norm of the everyday lifestyle, where they can look forward to having things. As a consequence, isn't this a very volatile climate? On the one hand, further sacrifice is absolutely dictated, but on the other there is a ready and available way of generating some quick revenue, some quick profits, in drugs. Isn't that really what is happening?

How do you mesh the two? The sense of sacrifice and the rewards, illicit rewards, that are available overnight if one wants to take the risk?

Mr. DOUGLAS. Senator, I would wager that the average Mexican working class or middle class has an equal or stronger revulsion to drugs and to the terrible consequences on Mexican society as we do.

I would further state, just from my knowledge of the country and my experience in the administration here, that drug money touches a very small percentage of the huge population of Mexico.

So, while we can talk about the consequences of declining oil benefits spread across the economy, I don't think that drugs are a substitute.

I think drugs will create funds that flow into those parts of their economy that do not build roads, schools, or create jobs for most serious hard-working Mexican families, who want about the same sort of things that working people, families, fathers and mothers want in other countries.

Senator MURKOWSKI. Thank you, Mr. Douglas.

I see my time is up, Mr. Chairman. But may I pursue very, very briefly one other question?

Senator HELMS. Go right ahead.

Senator MURKOWSKI. I hope that you are correct in your assessment of the fact that the drugs are not touching a broad group of the Mexican people. I am inclined to agree with you. My concern, though, is what the infiltration of that drug money can mean within the civil authority level.

Mr. DOUGLAS. It can create the poison that can take over the administrative body of an area, yes. But it can do the same thing in west Texas, or south Texas, or Florida, or New Jersey.

Senator MURKOWSKI. That is very true.

Tell me, gentlemen and lady, if you feel that it will be necessary for the United States, in some manner or form, to underwrite a portion of the debt that is owed by Mexico? Should it become a liability to the Federal public sector of our Government? In other words, as we reflect on what we are going to have to do to help Mexico, are we going to have to undertake debt forgiveness or some type of shoring up that would affect our Federal budget in order to deal with the $100 billion of debt that is out there, both public and private?

This question was asked, Mr. Chairman, at the last hearing. It may have been phrased a little bit differently.

But my question is are we looking at an additional liability as we reflect on the true realities of what it is going to take to address Mexico's financial plight?

Mr. DOUGLAS. In a word, yes.

Senator MURKOWSKI. Do you have any idea, or what is your estimation of how much that figure might be?

Mr. DOUGLAS. No, I don't.

But I think it is often a bit surreal to hear questions phrased as if we have not been doing that all along.

I mean, it is not like we only today opened the door and walked into this kind of activity.

Given the geopolitical importance of Mexico and the fact that we are so intertwined in immigration and any number of other things, it is hard to imagine how we could avoid in a final accounting, not underwriting that kind of resolution.

I don't think it is the kind of thing that Mexico wants to see necessarily. I think it is very harmful to their own sense of themselves and to their independence.

Ms. THORUP. I would just say that I think the first step is to get the international financial institutions, the commercial banks, and the Mexican Government to the negotiating table. I think that the linkage between resolution of the debt problem and other issues is very important to underline.

The problems on the Texas border with Mexico are going to get much more complicated if we, on the east coast, do not do something about debt.

Senator MURKOWSKI. I don't know if we could solve their problem. Does anybody have a figure for this in mind?

Mr. SANDERS. I could give you a figure from another country that has some relevance.

United States direct aid to Costa Rica has been running over $300 million a year. One way of looking at that is that it has gone in one pocket and paid the interest on their debts, until May, when they stopped paying.

Senator MURKOWSKI. You would not suggest a parallel figure for Mexico? That is the closest you will come?

Mr. SANDERS. Yes.

They have a $4.6 billion debt, Senator, and the Mexicans have a $100 billion debt. So you can do a quick calculation, but I would not suggest it.

Senator MURKOWSKI. I don't think I would like the answer.

Thank you, Mr. Chairman.

Mr. ROGERS. May I just add a point?

I disagree, Mr. Chairman and Senator Murkowski, about the necessity for the United States to assume this debt. I think it is a canard that we really ought not to start running around in the political debate.

Mexico can service and sustain its debt if international interest rates get to and are held to sensible levels. They are not there now because, in part, of the U.S. budget deficit.

Mexico could sustain its debt and service it if the OECD countries continue to expand at a 3-percent-or-better level and if Mexico's growth is reignited.

The key to this issue is not whether the United States is prepared to bail out either the banks or Mexico or both. The key to the issue is to get growth started in Mexico. Growth in Mexico is the solution to the debt problem. It is the solution to the migration problem. And it is the solution to the drug problem.

Senator **Murkowski**. Thank you.

Senator **Helms**. All right.

The thought occurs to me that I am hearing a lot of esoteric rhetoric about good neighbor policy and about a fine ally. I would hope that that could be true again.

But I think I am justified in my resentment at the cavalier way that the Mexican Government has ignored all of the things that have been said in the hearing, instead of saying look, let's get together and work out these things. For example, the testimony, and it is documented, is that the Mexican police provide police escort for drug runners coming into this country.

If anybody wants to know whether I am mad about that, the answer is yes.

But what did the Mexican Government say in response to that?

They said "those who are buying the drugs are in the United States"—and I believe that that is a cop-out.

I am waiting for the first syllable of reaction saying sure, we're making some mistakes. But they have not said that.

Then a Government-owned and controlled newspaper says that Jesse Helms is a "pot smoking gringo tourist who smuggles cocaine."

I say yes, that's volatile. That is a volatile reaction. Just like the Washington Post editorial this morning is a volatile editorial. It was intended to be.

But unless and until we face up to the fact that Mexico does not have a prayer as long as it clings to this socialistic system and rejects, so far as I know, any serious substantive move toward the free enterprise system that Phil Gramm talked about here last week, no amount of bailout money paid to banks to bail out Mexico is going to have any effect.

Mr. Sanders, I was very much impressed with your testimony this morning and I profited from it.

Mr. **Sanders**. Thank you.

Senator **Helms**. You referred to the crisis of confidence in Mexico, brought on, as I recall you said, in part by the August 1982 actions of the then President.

Now, a lot of us associate that crisis with the international bailout.

Let me ask you this. What domestic features did Lopez-Portillo's program have in Mexico in 1982?

Mr. **Sanders**. The nationalization of the banks was a political act. The banks already were highly controlled by the Mexican Government. The central banking system in Mexico resembled, in some ways, our own banking system. Mexican banks were probably the most efficient operators in the whole economy.

It was "death to the messenger" rather than accepting the message. He not only nationalized the banks, as such, but he destroyed the mechanism, the principal mechanism for investment in the Mexican private sector——

Senator **Helms**. Exactly.

Mr. **Sanders** [continuing]. And by seizing the dollar assets of Mexican residents, both Mexican citizens and foreigners living in Mexico, he destroyed with one blow confidence in the economy. There has been nothing of that magnitude to restore the confidence since that time.

Senator **Helms**. That's the point. That's the point.

That is when the flight capital began, isn't it?

Mr. **Sanders**. Well, flight capital had begun even before that because of an overvalued exchange——

Senator **Helms**. I meant in earnest.

Mr. **Sanders** [continuing]. Where it was very profitable in the late 1970's simply to remit pesos to dollars at the official rate. There was a joke in Mexico, that the only thing cheap in Mexico City were dollars.

Senator **Helms**. That had the obvious, predictable effect in terms of international investment in Mexico, didn't it?

Mr. **Sanders**. Yes. It was intended to encourage investment by making pesos available. But that was only part of the policy. There were so many other restrictions to foreign investment that it never worked.

Senator **Helms**. The program that was implemented, what effect did it have on the people? I am talking about the good people of Mexico, the people who want to work and who are struggling to survive.

Mr. **Sanders**. I had a discussion in January with an old gentleman, who was the shoeshine man in front of the hotel. We talked about things.

He said, "Senior, when I get 500 pesos, I go to the exchange shop around the corner and I turn them into a dollar, and I hide it at home. I don't put it in a bank; I hide it."

That is what capital flight is in Mexico.

Again, I go back to this "problem" of Mexico being so close to the United States. In other countries where I have lived during periods of economic crisis, it took a certain amount of sophistication, for example, in Indonesia, in the late 1960's, to turn your money, your savings, into dollars. If you were an overseas Chinese and you had a cousin in Hong Kong, you could do it, but not so for the average person.

Well, in Mexico, everybody can do it. A janitor walks up to you in a building and says sir, will you take this money when you go back to Dallas because I have a checking account in Laredo, and please mail it for me.

Millions of Mexicans—millions of Mexicans—have either worked or lived or visited in the United States, or they have friends or family in the United States. So the facility with which the capital flight arises in Mexico probably is not comparable with any other place in the world.

Again, you have to convince that little shoeshine man that he should keep his money in pesos.

Senator **Helms**. And how do you do that?

Mr. **Sanders**. Well, as I say, I think it requires a series of dramatic changes in policy, in politics. If they don't come quickly in a package, I see the situation eroding, and something you could have done today, which would have had an effect, if you do it 1 month or 4 months or 6 months down the pike is not going to be effective.

Senator HELMS. Last night, I asked staff to pull out from the files statements that I had made in the Senate beginning in 1982 and continuing into 1983 and thereafter about this very thing.

Now I do not consider myself a reservoir of wisdom, but it seems to me that anybody can look at the fairly recent history and see what the future is going to be. That is what I tried to do in 1982, and I was right.

I confess that I am often very didactic about the free enterprise system, but I am sincere. I think it is demonstrable, if you look around the world, that the more freedom the people have, the more prosperous the country is.

In a nutshell, this is what we are talking about with respect to Mexico.

Well, it is after 12 o'clock, and I have kept you longer than I intended. But I want to thank each of you for your patience and for your willingness to come here this morning.

There being no further business to come before the subcommittee, we stand recessed.

[Whereupon, at 12:15 p.m., the subcommittee adjourned, subject to call of the Chair.]

SITUATION IN MEXICO

THURSDAY, JUNE 26, 1986

U.S. Senate,
Subcommittee on Western Hemisphere Affairs,
Committee on Foreign Relations,
Washington, DC.

The subcommittee met at 2:45 p.m., in room SD-419, Dirksen Senate Office Building, Hon. Jesse Helms (chairman of the subcommittee) presiding.

Present: Senators Helms and Evans.

Also present: Senator Wilson.

Senator Helms. The subcommittee will come to order.

The Chair would begin by expressing his regrets that we have been delayed for 45 minutes because of a little matter on the Senate floor.

Today, we have two distinguished witnesses. The former United States Ambassador to Mexico, Hon. John Gavin, and Hon. Bruce Babbitt, the Governor of Arizona.

Governor Anaya of New Mexico is also here. I did not know that he was going to be here, but we want to hear from him as well.

Today we continue our discussions of the United States relationship with Mexico.

This relationship, as I have said before, is one of the most important to our country. In the past few years, our top officials have neglected this relationship at a time when serious conditions of social and economic unrest in Mexico have threatened constructive development.

If any benefits have come from these hearings, it is that Mexico has now been returned to top level priority in the thinking of the administration.

I am pleased that President Reagan intends to meet shortly with President de la Madrid, and I hope that their exchanges will be as frank and forthright as the witnesses have been during these hearings.

Indeed, there are signs that Mexico has been listening. This past week, for example, the Mexican Government announced that it was considering opening up the post of mayor of Mexico City to free elections by the voters. At the present time, I believe the mayor of Mexico City is appointed by the ruling administration, that is to say, by the PRI.

So, even the announcement that consideration is being given to a more democratic procedure is an important step forward.

Moreover, it should be noted that since President de la Madrid has come to power, two notorious officials—the ex-director of

PEMEX, the government oil corporation, Jorge Diaz, and the ex-director of the Institute of Mexican Coffee, Fausto Cantu—have been convicted of corruption. This is a welcome sign that justice is being allowed to work.

Let me say again that I personally have great confidence in the people of Mexico, if only they can be allowed to express their will. All of the parties in Mexico, except the ruling coalition, have complained about manipulation of the elections and invented vote totals.

In 1985, the opposition PAN party, denounced the results in 54 districts. Representatives of the business associations stated that the ruling PRI party represented only 29 percent of the electorate, including registered voters who did not vote. And the director of the left-wing PMT, or Mexican Worker's Party, said that the PRI had approached them with an offer to increase their totals by taking votes away from PAN.

Indeed, the director of PMT, Mr. Herbert Castillo, according to a Mexican newspaper of July 26, 1985, stated, and I quote: "The Presidential Chief of Staff of the Army made a vote count which fell into our hands; it informs the president of the PRI that more than 5 million votes were invented and added to the vote count. Instead of 17.8 million votes, there were only 14 million votes cast."

So, evidently, the double bookkeeping is well known in Mexico.

I believe that Mexico's economic problems cannot be solved until both the market and political process are opened up to free, individual decisions.

Mr. Ambassador, we are delighted to have you here today. We are grateful that you came across the country to be with us.

In my judgment, you have been one of the finest ambassadors of our day, and I am pleased that it was President Reagan who nominated you.

We have seldom had an ambassador who has had such deep feeling for the Mexican people. You have demonstrated that. We have seldom had an ambassador who represented the views of the administration so well. The fact that you were always open and frank with the Mexican people speaks well of your judgment.

We welcome you, as I say, and if you have a statement, we would be delighted to hear from you.

STATEMENT OF HON. JOHN GAVIN, U.S. AMBASSADOR TO MEXICO

Ambassador GAVIN. Thank you, Senator.

I have no prepared statement, but I would like to say a few words before I take your questions, sir, and those of your distinguished colleagues.

Senator HELMS. Excuse me, but I should have recognized my distinguished colleague for a statement.

Please forgive me, Senator Evans.

Senator EVANS. I have no opening statement, Mr. Chairman. I will wait until we proceed with some of the questions and then I may have some commentary, along with questions.

Senator HELMS. Very well.

Mr. Ambassador, you may proceed.

Ambassador GAVIN. Thank you.

To begin with, I would like to point out that Mexico is a country that is sometimes extremely difficult for us to understand, as it is sometimes very difficult for Mexicans to understand us.

We share borders with two magnificent nations. But with the Canadians, we have a more or less homogeneous society, whereas in Mexico, there are differences in culture, differences in racial makeup, by and large, from the United States, and differences, certainly, in historical perspectives.

I should like today, if I may, to try to respond to your questions as one who has not only been a lifelong student of Mexico and Latin America, but also as somebody who, as you pointed out, served our country, our people, and our President for 5 years in Mexico.

I would like, if I can, to bring not only our perspective to the responses, but also, if I may presume, the perspective that I believe Mexicans have, or sometimes have, on the issues that concern us.

Mexico is a country that already has 80 million people. It is one of the 15 largest economies in the world, even with the problems that it has today in its debt, in its fiscal, financial, and economic situations.

The 80 million people that Mexico has today are faced with a birth rate, depending on whose figures you see, of 2.3 or possibly 2.5. This is down from several years ago, when it was a quite frightening 3.5 to 4.

What this means is that by the end of this century, Mexico is going to have at least 110 million, possibly, as some demgraphers tell us, 125 million people. It is not able to create enough jobs under its present circumstances to satisfy the people coming into the job market every year. Part of that reason is that 50 percent of the population of Mexico today is 18 years old or younger.

Last year, 900,000 new people came on to the job market. Only 600,000 new jobs were created.

Although Mexico has had decades of real growth, somewhere around 6 percent on average, this year it looks as if it will be a minus growth, it looks as if inflation will exceed possibly, 90 percent, and, consequently, the problems will continue to be exacerbated. People will go north and people will, as the saying goes, "vote with their feet."

I happen to believe, and I said with some frequency while I was an ambassador, that respect is a two-way street. Mexicans frequently ask us for respect, and they are entitled to it.

My response always was that we were, too, as neighbors and as friends, and that it did no good to try to picture us as scapegoats or use us as whipping boys because in any relationship that is to be mature, whether it is between individuals or between nations, the parties must respect each other. In other words, this returns to my phrase that respect is a two-way street.

I would also like to say that it is difficult sometimes to answer questions briefly, to answer questions with simple yesses or nos. I am reminded of the story of the man who asked five economists a question. He said, from these five economists with the same question I will get five different answers—six, if one went to Harvard.

The same man told me a story about the search that he had for a one-armed economist. He said he wanted to find one because he was tired of hearing, but on the other hand. [Laughter.]

If I may, however, today in response to your questions, I may wish to say, as frequently as I feel it necessary, but on the other hand.

Let me say before I take your questions, sir, a couple of things more about the economic situation in Mexico.

Everybody today talks about the debt. Debt has become the buzzword. It is the item of interest.

But the debt is only a symptom. It is only a result of the problems that exist. These are not problems that were created overnight. They are problems that took a long time to come into being.

They are problems that cannot be resolved by simple applications of more money, or by simple, if you want to call them that, economic solutions. They require serious economic, financial, fiscal, and, yes, political solutions.

We often say this to our friends in Mexico, and, frequently, there is resentment that we do that.

I wish the Mexicans would understand that for the United States it is imperative that Mexico be free, strong, and prosperous, because, if they are not free, strong and prosperous, not only will they suffer, not only will their people suffer, but so will we.

Thank you, sir.

Senator HELMS. That was a very fine statement, with which I concur.

Thank you very much.

Suppose the time will be set for 10 minutes, and we can go back and forth. I think there will also be some other Senators here.

Let's talk a little bit about Mike Deaver and his lobbying firm. It recently severed its $250,000 contract with Mexico. Is that your understanding?

Ambassador GAVIN. That is what I have read, sir, yes.

Senator HELMS. According to the required filings with the Department of Justice, Mr. Deaver reported 25 lobbying contacts with various United States Government officials between January 7, 1986, and March 17, to be helpful to Mexico on such things as patent protection, the application of the generalized system of preferences to Mexico, Mexico's entrance into GATT, the Baker plan for the economic bailout, the oil import fee, the World Bank meeting, for example.

Can you tell us whether there is a dispute between Mexico and the United States over patent protection, particularly with regard to pharmaceuticals?

Ambassador GAVIN. Yes, Senator. We have had a dialog on this subject and several others that refer to intellectual property, patents, copyrights, and so forth, over a period of years.

Mexico has legislation that makes it difficult for some of our corporations to deal there. The legislation that they have, according to our people, is extremely restrictive and causes them serious problems.

We have, with all respect, submitted to Mexico and to the Mexican authorities information that would indicate that it takes sometimes as much as 10 years to develop a patent; that it takes sometimes as much as $100 million to develop a patent. And we have submitted, again, respectfully, that there should be protection for this kind of intellectual property because of the costs and the energy that have gone into these developments.

We have been in negotiations about that. The pharmaceutical industry has felt itself pressured in Mexico. It is not just the American pharmaceutical industry. It is firms from many countries who operate in Mexico and who have felt that they were being treated unfairly.

However, in this dialog, I think we have managed to make a convincing argument and we have made some advances, and I am hopeful that further advances will be made.

Now this is not just because I think that the American and other international pharmaceutical companies should be protected or are entitled to certain benefits because of their investments and their work, but because I also think in the long run it is better for the people of Mexico.

Senator HELMS. How about the other matters which I specified? Were there differences of opinon on those as well?

Ambassador GAVIN. Differences of opinion on which, sir, I'm sorry?

Senator HELMS. Between Mexico and the United States on, say, the application of the generalized system of preferences, or GATT?

Ambassador GAVIN. Well, in the case of a generalized system of preferences, as you know, that is a process or a development that came out of the Congress of the United States in order to help less developed countries.

I believe we have been extremely generous with Mexico. The history of the product that they have sent here will show that that is true. There is a certain level of percentage of the market that, once it is crossed, items are said to graduate. There is a certain level also that has been indicated as being also—this is in total dollar terms—indicative that a product can then graduate and be off the list.

We have been accused of being punitive in this list by either people who do not understand or people who, once again, are trying to use us as a scapegoat.

I repeat. This has been something that we have given to lesser developed countries, and in the case of Mexico we have done, I think, very well by our neighbors.

I feel we should continue to do that. Of course, that is at the discretion of the Congress. The program has a sunset.

Senator HELMS. How do you feel about Mr. Deaver's assistance to Mexico on these matters? Do you think he helped the U.S. initiatives by his efforts?

Ambassador GAVIN. Well, I really don't know what was done, Senator. I am not privy to that information.

I understood that he was representing the Government of Mexico on trade matters, and he informed me of that when he visited Mexico last January.

But, except for that, I really don't have any other information on his activities.

Senator HELMS. So, you would not have any view as to whether his assistance was in the national interest of the United States?

Ambassador **Gavin**. No, I don't, Senator. I do not.

Senator **Helms**. On January 4 of last year—1985—Mr. Deaver announced that he was leaving the White House, but he did not really leave until May 10 of last year.

There have been press reports that in May 1985, in other words, after Mr. Deaver had announced his leaving but before he actually left, Mr. Deaver asked Mr. Bob Tuttle, the personnel man at the White House, to call you in Mexico City and ask you to resign.

Is that report by the media accurate?

Ambassador **Gavin**. Yes, it is, Senator.

Senator **Helms**. Does it strike you a little bit odd that Mr. Deaver was trying to get a new Ambassador to Mexico to replace you at a time that he himself was preparing to leave the White House to set up his own lobbying firm, or counseling firm, or whatever he calls it, a firm that would shortly be signing a contract with the Government of Mexico?

Ambassador **Gavin**. Senator, I would rather not comment on that.

What I know is that I told his surrogate that the call he was making was presumptuous, that the President of the United States had asked me to take that appointment, and that he, I am sure, would call me when he wanted me to leave my post.

The truth of the matter is that in April, on April 7 of this year, when I did submit my letter of resignation, the President was kind enough to try to talk me into staying and changing my mind, and so was the Secretary of State. I am very proud of that, sir.

Senator **Helms**. Well, I can add a personal note.

I flew with the President to North Carolina not long ago, and we discussed you. He is, indeed, very proud and grateful for the services you have rendered. I don't get that second hand. I know how he feels about you.

All right. Now let's talk a little bit about the Government ruling party, PRI, and the electoral system in Mexico, and I hope I do not ruffle too many feathers by bringing up this subject.

Would you describe the process by which the Presidential candidate is chosen by PRI?

Ambassador **Gavin**. Mexican watchers, students of Mexico, in and out of Mexico, both foreigners and Mexicans, will tell you that the process is one of selection. It is done by what you might call the party elders. But, of course, the most important of all the party elders is the President, that is, the sitting President.

I think you can say that, by and large, the President of Mexico will have the most to do with the selection of his successor.

Senator **Helms**. To what extent does PRI support and control the opposition parties, such as PAN and the others?

Do they do it through Federal funding, through participation in deals, through fear of reprisals?

What is your analysis of that?

Ambassador **Gavin**. There are allegations made in Mexico all the time that the parties of the extreme left are subsidized by the ruling party. The main opposition party, the Party of National Action [PAN], claims it does not receive any subsidies or assistance. There are various reasons why this kind of practice is said to take place.

One of them is because it is said that the ruling party wishes to have a viable opposition, and that without this assistance, they would not exist.

The system in Mexico today in their bicameral Congress, is that the Senate is traditionally filled by only members of the ruling party; the lower house, the Chamber of Deputies has 75 percent of its people as members of the ruling party and the other 25 percent of that House is given to the rest of the opposition.

Senator HELMS. Dan, if you will allow me, may I finish this line of questioning with just one more question.

Senator EVANS. Sure. Go ahead.

Senator HELMS. Let's talk about the businessmen who are members of the PRI. Do they get any special benefits?

Ambassador GAVIN. Well, the PRI has developed on a tripod—labor, the bureaucracy and technocracy and the private sector.

In the last few years, I was amazed to see that certain individuals, such as the leader of the labor sector, Juan Fidel Velasquez, have made public statements saying they did not want any private sector people in the party; that they did not have a place in the party for them.

A great many people in and out of Mexico found that very unusual because, certainly in the past, not only has the country and the economy developed on this tripod, but also there have occasionally been situations where I am sure that people knowing each other have been able to scratch each other's backs.

I suppose that this is not unique to Mexico.

Senator HELMS. Thank you, sir.

Senator Evans.

Senator EVANS. Thank you, Mr. Chairman.

First, let me say that I think it is far past time that we paid attention to one of our two large neighbors. We have had a long relationship with Canada, coming from our joint cultural backgrounds and the way we happened to grow. Unfortunately, I think as a country for over 200 years, or for the better part of 150 years, at least since the independence of Texas, we have largely ignored Mexico, except on sporadic occasions when we have an intense interest. Then that begins to lapse and once again we ignore a country that is independent, large, and proud. The Ambassador has said something that I think few Americans understand: that Mexico, even with its current economic difficulties, is one of the 15 largest economies in the world—in a world of almost 200 independent nations.

Mr. Chairman, I think the constant drumfire of criticism aimed at Mexico will do just what it would if a similar drumfire of criticism were aimed at the United States from any country offshore. It would create antagonism against those who would make charges; it would rally support for the government in charge, whoever it might be in this nation; and it would poison relationships between the two nations.

I would be the first to admit that I do not pretend to have deep knowledge of all of the intricacies of Mexican politics; but we have a good relationship and we seldom criticize, or at least many of us do not criticize, those who choose or have other forms of government.

The fact that there is one party control of the Mexican Government is hardly unusual. We seem to do all right with one party control of Korea, one party control of Taiwan, even one party control of Japan, where many of the Diet seats are from very small districts. They don't have one man—one vote. If they did, they might change the whole nature of their political system.

With that, Mr. Ambassador, let me speak first about the current and most public problem to see how you believe we could most effectively and honestly deal with it. This, of course, is the debt, its restructuring, or whatever other alternatives there might be. Also, what can best be done to serve both the interests of the United States and the long-term interests of Mexico itself, to give them some chance of turning around the current economic decline and to build the kind of internal economy that has some chance of being viable and sustaining the kind of debt payments that are required.

What would you do if you were in a position today to deal with the current debt problems and were given carte blanche to do anything you would about them?

Ambassador GAVIN. Senator, I think the three bases that were enunciated as conditions of the Baker initiative are important.

I would hope to see an increase in investment in the economy, including foreign investment. I would hope to see an opening of the economy. I would hope to see developments that would reduce protectionist measures. And I would hope to see a welcoming of technology from abroad.

During the years of the oil boom, Mexico restricted more and more its importation of capital to loans. It ended up with creditors, rather than with partners.

I think that is too bad.

I would like to see an opening up of the economy. But I recognize that in asking for that, the Mexicans have what they call "political considerations."

I think President de la Madrid has been making steps toward reductions of subsidies. Attempts to reduce the deficit as a percentage of the gross domestic product have been erratic, but at least there have been attempts.

Where we do not see any progress—and I believe it is due to the fact that there is such an enormous amount of not only protectionist feeling but of resentment against foreigners particularly the United States in certain quarters of Mexico—is in the area of foreign investment.

The situation consequently, has created an enormous flight of capital.

What Mexico needs to do—easy to say, but hard to accomplish—is to turn that around, and to create conditions for this capital to flow back.

I think we could make an argument for Mexico being a creditor country to the United States rather than a debtor.

I think we have identified something like $15 billion in deposits in banks that are from Mexico. Certainly, I think we can extrapolate that there would be another $45 billion in properties and residences, houses, condominia, et cetera, in this Nation.

This does not count whatever money they may have taken to Europe or to other areas.

I am not talking here about money that has fled illegally. I am not talking about money that has fled as a result of corruption and narcotics traffic. I am talking simply about money that has fled from Mexico, money that is Mexicans' money, but that is not in that country, helping them to come out of their deep economic morass.

Senator EVANS. Those are important longer term goals to be sought. The crisis, however, is current.

What about in the short term? It would be nice, and I think it is important, as you pointed out, to try to open up for foreign investment, to try to retrieve some of the capital which has fled, but that is not going to happen overnight, or in 1 month, or in 6 months or perhaps even 1 year. So what do we do now?

Ambassador GAVIN. Senator, the reason I addressed myself to the long-term situation is that, obviously, Mexicans have to make their own decisions. Mexico is, as you point out, a sovereign nation.

The Mexicans will decide what happens in Mexico.

But, with all respect, if they do not take decisions that will affect the structural problems that they have in their economy, then all of these short-term arrangements that we make—as we did in 1982 and as we are doing now—will only be that. And we will find ourselves going through generations of these—because the debt, as it is constituted cannot be repaid, we will go through generations of rollovers.

In this situation that we have right now, as you well know, sir, the IMF, the World Bank, and other international institutions are working with Mexico and with Mexican authorities. I think there should be an announcement about the program that they have reached momentarily. But I recall that in 1982, a decision was reached with the IMF, and certain targets were set—for example, the deficit as a percentage of gross domestic product.

At that time, that deficit had reached a level of something like 19 percent.

The arrangement that was made was for that deficit to be lowered to 8.5 percent in 1 year, 5.5 percent the next year, and 3.5 percent the following year.

A very good attempt was made to reach the 8.5 percent figure, but it was not achieved.

Senator EVANS. This ratio is annual deficit as a percentage of their gross national product.

Ambassador GAVIN. Gross domestic product, or gross national product, if you will.

Then, beginning in 1984, in the fall, around October, Mexico began to overheat its economy. Inflationary tendencies took over. The printing presses were put into effect.

Some Mexicans accused their government of doing that because they were trying to buy the elections that took place in July of last year.

Whether that is true or not, the fact is that the economy became overheated, the deficit as a percentage of GDP rose again, and Mexico went back to the rollercoaster that we see.

Of course, it is very difficult to say to somebody you must do certain things—reduce subsidies for example. They say to you "that will cause social problems" or "that will cause political problems."

They may have something there if they reduce the subsidies on tortillas, if they reduce the subsidies on the metro in Mexico City, and so forth.

But at the same time I think that arguments can be made for more orthodox and more realistic solutions, even though they may be in the short term politically painful solutions or remedies, because I believe that if they are not undertaken soon, in the long run the remedies are going to be much more unpalatable and much more drastic.

The reaction then is going to be much more difficult.

Senator EVANS. Are we not running up against one of the most fundamental premises of politics, probably the first commandment: Don't do anything that will throw you out of office? In other words, it is easy for us to say to cut down on subsidies but difficult to do.

In fact, do I understand correctly that they have, in fact, had a radical rise in the popular one peso metro to something like 50 pesos?

Ambassador GAVIN. It has risen, indeed, sir.

But you must remember that the peso today is about 600 to the dollar.

Senator EVANS. Yes, I understand.

But I also know that we have on at least one and perhaps several other occasions asked the same kind of tightening of the belt of other nations in order to assure that they could repay their debts. I think that it is probably accurate to say that in the Sudan, that probably had a fairly impressive role to play in the government's downfall.

In Egypt, in talking to the President of Egypt, it is clear that they were able to withstand similar pressure, but not easily.

Ambassador GAVIN. Well, Senator, as I said: These are hard to undertake and hard to accomplish, sometimes. But I think we have to look at the long-term situation.

Senator EVANS. Mr. Chairman, if I may follow up with one last question——

Senator HELMS. Sure.

Senator EVANS [continuing]. What kind of problems do we run into with a country if we ask them to tighten their belts by reducing their subsidies, No. 1, and No. 2, ask them to reduce imports as a way of preserving their foreign exchange or capital, and in the process really shrink the size of their economy rather than increase the size of their economy? Isn't that almost a self-defeating proposition, at least in the short run?

Ambassador GAVIN. Well, we are asking them to increase exports, too. But that depends also on the rate of growth in our economy, among others.

I think you have to consider the steps that are being taken—you are quite right—and the rate at which they are being taken. But, I repeat, I think we have to look at the long term. I think the long-term situation is frightening if some of these structural adjustments are not made.

Senator, let me speak as a reporter here and not as an advocate. Mexicans complain about the amount of the economy that is owned by the state in Mexico.

We have done studies ourselves that would indicate that as much as 70 percent of the economy is today owned or controlled by the state.

Now, in discussing this with authorities in the Government of Mexico, they have responded that that was not true, that it was a figure considerably less than that. But even if it is, let's say 40 percent or 50 percent, it begs the question of efficiency, of productivity, or profitability, and of the development of a viable and energetic private sector that will create jobs, new, good, efficient jobs, rather than defend old, tired, and inefficient jobs.

Now we are speaking in macro terms, and, of course, it is very difficult to say that to somebody who is maybe going to lose a job. I realize that that can be very difficult.

We talked for quite a long time, for example, about the steel complex and the problems that Mexico had with that. They have recently, finally closed that down.

Those are very difficult bullets to bite, Senator. I am fully aware of that. And in many ways, my hat is off to the Mexican authorities for doing that.

As someone who wants to see Mexico succeed, if only for selfish reasons, I only wish that more could be done, and more rapidly—recognizing, once again, the political and social implications.

Senator EVANS. I would just say that I thoroughly agree with you. Time and time again throughout the world, proof is shown in recent decades that market economies soar ahead and that State economies generally do not. I guess I would have to say that in times past and in times present, however, it has not kept us from having respectable relationships without any great attempt to interfere with the decisions others have made.

England had a greatly nationalized economy during their Labor Government. China has a pretty national economy today. It seems to me that we are better encouraging by example, rather than by exhorting or demanding a change in the internal economies of another country.

Ambassador GAVIN. I would agree with that statement, Senator.

However, I would say that when we communicate frankly and respectfully with any neighbor or any nation, it behooves that nation to also respond and listen to us frankly and respectfully.

I do not believe that intervention is going to be successful, and the Mexicans have a dread of intervention. Even the word sends chills up their spines because of their historical memories.

I am aware of that. I think that we, as Americans, have to have an awareness of it.

I still think that under the circumstances, because of the relationship that we have, and because we are the safety valve for Mexico—let's not forget that—that we should be allowed to have a frank, an open, and a respectful dialog.

Senator EVANS. Thank you, Mr. Chairman, for the extra time.

Senator HELMS. Certainly, Senator.

We are delighted to have with us a Senator whose constituent is now at the table.

Senator Wilson, we are glad to hear from you.

Senator WILSON. Thank you very much, Mr. Chairman. I am grateful for the courtesy that you have extended to me as a nonmember of the committee to be here.

I am here because not only do I have a profound respect for my constituent, who I think served admirably in the post of United States Ambassador in Mexico City, but also because my State, and for that matter, my city, my home town, borders Mexico. In my own experience as Mayor of San Diego, the largest of the American border cities for 11 years, I had constant contact with a number of Mexican friends, Mexican colleagues. But even more than that it is because of the fact that inextricably that the future of the Mexican and American peoples are intertwined. The impact of one what occurs in one country inevitably and increasingly will produce an impact in the other.

It is for this reason that I must say that I agree emphatically with Ambassador Gavin's very candid appraisal of the situation that candor is called for.

There is an historically understandable sensitivity on the part of our good neighbors in Mexico about what he has termed as "interventionism." The slightest suggestion from anyone in this country that implies any criticism is resented by many, and I should say by many on both sides of the border.

I think, very honestly, the time for that sensitivity is realy past if we are going to deal with the monumental problems that are afflicting both nations.

The fact that the United States is experiencing massive illegal immigration, which it is clearly incapable of dealing with at the present, at least by the present measures, the fact that we are encountering a massive drug traffic, the fact that much discussion, earnest and sober discussion, in Mexico City and in Washington revolves around trying to bring relief to the Mexican economic crisis and the easing of its debt burden all make those points inescapable, I think.

The suggestion that things need to be done differently in Mexico City if those suggestions originate from those who are friendly and constructive critics, nonetheless evokes umbrage of the kind that is, as the Ambassador stated, both predictable and I think unfortunate.

The point, very simply, is that there is a crisis and it is not purely the crisis of the Mexican people. We do share not only the 2,000 mile long border, but a future that I think we have the ability to shape and change by some concerted action. For this reason, I have told both friendly critics of my own point of view and those who are not so friendly that we really cannot accept the premise that what happens within Mexico is the purely internal concern of a sovereign nation that is our neighbor—not when the impact is as vivid and as strong, as pervasive as it is certainly in my State and I think as it is in the nation from any number of different aspects of this crisis.

The economic crisis is one. One of the aspects of that is most vivid, perhaps more so in a regional fashion than in the Nation as a whole, is that of illegal immigration.

So, as a preface to the questions that I have, Mr. Chairman, I would have to say that I think there needs to be an understanding that the United States cannot engage in a politeness. That would be tantamount to a dereliction of duty to those whom we are elected to serve when massive problems affecting the American people have their origin outside our borders, within the borders of a good neighbor.

This is why we are often required to look at problems critically, I hope honestly and I hope fairly. I would have to say that I think Ambassador Gavin, while he has defended the interests of the United States, has been a very sympathetic observer and listener, a friend of Mexico as well as the official representative of the United States. I think in his own demeanor in the way he has conducted himself as the United States Ambassador in Mexico City, he has made it clear that, far from being defensive about the United States, he will be assertive of our interests, assertive of our rights and obligations, and also, I think, it clear to anyone who has fairly observed his conduct that he has been a sympathetic friend to the people and to the Government of Mexico and often purveyed their concerns in a very significant and very sympathetic fashion to the United States Government.

There are any number of questions that I could ask, and I apologize that other commitments did not permit me to hear the Ambassador's remarks. Apparently he touched on the flight of capital, on investment policy within Mexico.

I don't know whether you touched on the protection or absence of protection of intellectual property rights, but I know these are concerns that you have had.

When I visited Mexico last, which was last July, you and I visited the Foreign Ministry, we visited with the President on two occasions, and were most graciously received virtually everywhere. We called on Silva Herzog, the Minister of Finance.

The concern that I had was that there was not an appreciation of the extent to which the United States genuinely sought to be of assistance, at the same time that we sought change not for the sake of change, not for the sake of exercising influence, but for the sake of trying to assist in change that is needed, clearly needed, change that was admitted to be necessary in the private conversations that we had in all those offices.

You have made a very telling point, that the capital that has flown from Mexico is Mexican capital. It is privately owned. It is not the kind of laundered funds that sometimes occupies our attention.

But we are talking about people who have simply taken money earned in Mexico and invested it outside.

Now there is nothing wrong with that. Indeed, in this country, we welcome investment, foreign investment of all kinds. The problem, obviously, as you point out, is that it is more than ironic that at a time when Mexico is in dire need of capital, there is a plenitude of Mexican capital invested outside the country.

Now the point is well taken that it is private, rather than public. And yet, this not small distinction nonetheless does argue for the kind of change in policy that I do not think can be viewed simply as a long-term solution. There is a crisis that is immediate.

My first question to you is whether or not in your discussions with then-Minister of Finance Silva Herzog, with President de la

Madrid, with Mexican leaders in other quarters these discussions that you have had have ever focused on any remedy that they advanced with respect to try to retrieve some of that capital in order to invest it in job creation in Mexico, in a way that, from our selfish point of view, would offer the opportunity not only to deal with her debt crisis in a diminished magnitude but also, hopefully, as it gained employment for Mexicans, would reduce the pressures on our own border?

Ambassador GAVIN. To respond to your question, Senator—with a brief parenthesis saying first of all, thank you very much for your kind comments and secondly, that I support, as you know, your observations on Mexico—yes, in my conversations with both the President of Mexico, President de la Madrid, and the Secretary of the Treasury, until recently Minister Silva Herzog, I did take up these particular subjects.

They had, in my estimation, the best intentions and plans for trying to find ways to reduce the problems and to create more jobs and to create the conditions for capital to flow back.

But, as you might imagine, they were seized or taken up with trying to take care of problems that were immediate, to put out brush fires as it were, that were going on always in their economy. They always had the consideration of the political pressures that would arise if they moved too fast in any one direction.

I should say, too, that very often in the United States and in other countries we think of Mexico as a monolith. It is not. Within the government, there are different points of view. Some are not expressed as openly as you might wish because they are not fashionable in that society, or at least in those groupings. But, within the society as a whole, there are different points of view.

There is a group that tries to use and continues to use the United States as a whipping boy and a scapegoat. But there are other people, I think the majority of the people—we have polls that would indicate this—that are friendly to the United States in Mexico; people who really like the United States, like our people, who come here or who want to come here. These are not just people with money. They are also those people who have come up here and worked and have gone back to their villages, and who sometimes come up and go back with some frequency during their lifetimes.

This is the same case in the media. This is the same situation that exists.

Senator WILSON. It is nonmonolithic.

Ambassador GAVIN. It is nonmonolithic, precisely.

I think we have to consider this with reference to the particular programs that they are trying to undertake. We also have to remember that, whereas we might approach a problem from a certain school of economics or a certain general thought on how to handle economic problems, by and large, in the Government of Mexico, certainly in the technocracy, the people have been trained in the School of Economics in Mexico, and in some cases more than have gone to Yale, Harvard, or Stanford or other universities in the United States have tended to go for postgraduate work to the London School of Economics or to Cambridge, though not to Oxford.

As a consequence, I think we have frequently seen applications of Marxist or near-Marxist solutions, of statal solutions, of sometimes autarchical solutions, of Canterbridgian rather than Oxonian solutions in economic terms.

I, personally, with all respect, think that is too bad, but I am not alone in that. Many Mexicans think that way. It is just that the prevailing opinion tends to be on the other side.

Senator WILSON. These good intentions of which you have spoken I take it have not taken the form of concrete proposals? I am not aware of any.

I can recall being part of the official U.S. delegation sent by President Ford at the time of the inauguration of President Lopez-Portillo. I recall well that in his inaugural speech, he commented rather sternly on the flight of capital, spoke of a measure that his administration would initiate to prohibit that kind of thing. It was clear in his remarks that it was frowned upon, and yet it has gone on apace, to put it mildly.

I am not aware of any, and that really was my question.

Ambassador GAVIN. Well, Senator, there have been some developments. You know, one swallow does not a spring make, as the saying goes. But there have been some excellent developments.

A hotel chain that the government owned and came by, that was originally initiated by private sector enterprise, has been returned to the private sector. There has been notification that the airline, Mexicana, is for sale. I don't know if there would be any buyers or takers under present conditions, but that is a good indication.

They have closed, as we mentioned earlier, a money losing steel complex that was draining the economy.

But there are many others that should be looked into in our estimation so that Mexico can run more efficiently and so that people will not delude themselves that, rather than losing money, they are simply getting, as an official once told me, transfers of funds.

Senator HELMS. Thank you, Senator.

Senator WILSON. Thank you, Mr. Chairman, and thank you, Ambassador Gavin.

Senator HELMS. Senator Wilson mentioned Lopez-Portillo.

Has there been any effort to investigate the allegations of corruption against the former President of Mexico?

Ambassador GAVIN. I'm sorry, Senator. I did not understand you.

Senator HELMS. Has there been any effort to investigate the allegations of corruption against Lopez-Portillo while he was President?

Ambassador GAVIN. Senator, Mexicans will tell you—and I am sure that the delegation that is here from the Mexican Mission, that is with us today will tell you—that former Presidents in Mexico are not investigated.

Senator HELMS. Well, maybe we can at least talk about him. [Laughter.]

He is one of the richest men in the world, or reportedly, is that correct?

Ambassador GAVIN. He is alleged to be, sir, by many Mexicans.

Senator HELMS. He owns several mansions in Mexico and Europe. Is that your understanding?

Ambassador GAVIN. This is what is said.

Senator HELMS. Tell me what the salary of the Mexican President is.

Ambassador GAVIN. I believe that is a classified figure.

Senator HELMS. So the Mexican people do not know what the President of Mexico is paid?

Ambassador GAVIN. There may be a figure, but I am not familiar with it at this time.

Senator HELMS. There has been a big flap here about whether Willy von Raab, the head of Customs, misspoke. There have even been suggestions that there were great apologies transmitted to Mexico. But as far as I can ascertain, no apology has been offered in terms of what Mr. von Raab said when he testified before this committee.

But let me ask you, Mr. Ambassador.

Do you have any information yourself contrary to the statement made by Mr. von Raab before this subcommittee? Let me read what he said: "The only information that I have on the Governor of Sonora is that he is alleged to own four ranches located near Alimosa, in Sonora, on which all four ranches is grown marijuana and opium poppies. We believe these ranches are currently or occasionally guarded by the Federal Judicial Police and/or the Mexican Army."

Ambassador GAVIN. Senator, I spoke to Commissioner von Raab. Parenthetically, I think Commissioner von Raab has been an outstanding Commissioner of Customs. But I spoke to him about that statement because I had no information to that effect.

Quite the contrary, information that we had received had been tested, had been analyzed, had been scrutinized and investigated, and, indeed, that was not what we found.

As a consequence, I pointed out to him that I thought—I think the legal terminology is falso in uno, falso in omnibus—that that might in some way shade the other testimony that he had made, and suggested that it be corrected.

There are apparently some sources of information that his department has that would indicate that there may be properties of this Governor's on which narcotics are being grown, or narcotic producing substances. But, as I understood it from the statement that was made afterwards, he said that there was no information that he, the Governor, would know anything about it.

In my own experience, Senator, I must tell you that I think Gov. Felix Valdez is an honest public servant. I think he is a man who has had an impeccable record during his public career.

Unfortunately, there are other Governors that we cannot say that about. Our information and our intelligence indicates that there are others—at least two notoriously so—who are up to their elbows in the drug trade. One is a particularly galling example of corruption because we happen to know that he has given shelter, comfort, and protection to a fellow named Felix Gallardo, who is, under any circumstances, the drug overlord of Mexico.

But, I repeat to you, I do not have any information that would indicate that Gov. Felix Valdez' good reputation should suffer.

Senator HELMS. I probably inadvertently caused the confusion. Now, von Raab did say Sonora, as I did in my question, when I should have referred to the Governor of Sinaloa. Now, he is the Governor to whom you just referred.

Ambassador **Gavin**. I don't recall mentioning any names.

Senator **Helms**. Well, all right.

There was a CBS report some weeks back which implicated Florentino Ventura, who is head of the Judicial Police, and Edmundo de la Madrid, who is a first cousin of the President, as I understand it. It implicated them in drug trafficking.

Are these reports by CBS accurate or inaccurate according to your understanding?

Ambassador **Gavin**. Senator, because of the nature of the classified information that I have received on these particular matters, I think it would be incorrect for me to comment publicly.

Senator **Helms**. All right.

We are trying to hurry this along here because of time.

We talk about Mexico as our good neighbor, and I want them to be and I want us to be good neighbors. But I have found interesting Mexico's votes in the United Nations.

I assume that you have watched those.

Isn't it true that Mexico is the only country to join the three Communist governments of Nicaragua, Cuba, and Guyana, in the name calling of the United States, that is, in United States-bashing votes in the United Nations?

Isn't that correct?

Ambassador **Gavin**. Yes, sir.

Senator **Helms**. Can you explain this to me if they are such good neighbors?

Ambassador **Gavin**. Senator, over the past several years we have had a series of discussions with the Mexican Foreign Ministry about this particular practice.

The name-calling is, with all respect, an unfortunate practice. We have pointed out time and again how counterproductive we thought it was and how patently unfair we thought it was.

We have received all sorts of responses explaining or attempting to explain the Mexican position. We are on opposite sides of the fence on this particular matter, Senator.

I think that when you see all of the Nations of Latin America voting on one side and you see only, as you pointed out, Guyana, Cuba, and Nicaragua on the other side, it is painful that Mexico would also fall in with that latter group.

Senator **Helms**. How close have the Mexicans been to the Nicaraguan Government?

Ambassador **Gavin**. Mexicans are justly proud of their revolution, and, as we said earlier, are very sensitive about intervention of any kind, particularly intervention from the so-called Colossus of the north.

They would like to believe, some of them—again, Mexico is not a monolith about this—and some perhaps for ideological reasons would like to believe in and support the revolution in Nicaragua.

The explanation that we get is that this is an authentic revolution and ought to be allowed to mature.

Our response is that this is a revolution that has been betrayed; that in 1979, the Sandinistas, before the Organization of American States, stated that there would be democracy, there would be freedom, including freedom of the press, freedom of political parties, and freedom of religion. The Sandinistas have betrayed all of those principles, Senator.

The Sandinistas are surrogates of the Soviets in Central America. It is a frightening situation to many people in Mexico, as well as in this country.

Unfortunately, I repeat, because of their own feelings about intervention, because of their own feelings about their own revolution, and perhaps in certain cases, I repeat also, because of ideology, there continues to be a support of certain elements of the Sandinista dictatorship.

We regret that.

However, we do support the Contadora process, of which Mexico is an initiator. We support it as long as there can be verification and simultaneity—verification of the removal of arms and forces and that it be done in a way that does not unbalance or unhinge the situation.

Senator HELMS. You mention intervention. I do not favor intervention. But I must say with all charity to our neighbor to the south that they don't mind us intervening with our pocketbooks. It is the question of the bailout of the big banks and a repeat of the 1982 slippery slope that bothers me.

Let me ask a couple of quick questions and then I will yield to our colleague.

To your knowledge, was there any evidence of fraud in the elections of Sonora, Chihuahua, and Nuevo Leon?

Ambassador GAVIN. Well, Senator, let me again refer you to Mexicans and to Mexican positions.

Senator HELMS. I think you just said yes.

Ambassador GAVIN. Many Mexicans allege that there was.

Senator HELMS. In the elections coming up in Chihuahua and Sonora in July, to the best of your knowledge, which parties are ahead, as of now?

Ambassador GAVIN. In Chihuahua, in next month's election?

Senator HELMS. Yes, and Sonora.

Ambassador GAVIN. I would be hard-pressed to give you a specific or a valid response to that. The ruling party has recently tried to select able and good candidates, as they did last year in Sonora—with all respect to the opposition candidate, Mr. Rosas. In Chihuahua this year, the opponents are, for the PAN, the mayor of Ciudad Juarez, which is the largest city in Chihuahua, and on the ruling party side, on the PRI side, Fernando Baesa.

I think that because Fernando Baesa is perceived by the people of his state to also be a public servant who has been honest and energetic the race may be close—again, with respect to both candidates.

You know, it is remarkable when you talk about this kind of situation—we mentioned earlier how Mexico is not a monolith. We have done it several times. Well, neither is the press in Mexico a monolith.

We have constant reports here, I am sad to say, by people who really have not done their homework, or who perhaps are biased, or who perhaps do not understand Mexico enough, that the Mexican press has done such and such a thing.

The Mexican press does not always react one way. A segment of it will. But you have to understand what they are.

In Mexico City, there are probably 20 newspapers. If you put the entire circulation of all of those newspapers together, it will not come to 750,000 or 800,000. One paper, with a circulation of possibly 150,000—which is already a considerable chunk of that total circulation amount—is very pro-U.S. "Heraldo." Another paper tends to be moderate. After that, you find papers that not only will attack the United States and try to use it as a scapegoat as a matter of ideology, but people who also will indulge in what is known as the "embute" in Mexico. That comes from the verb meaning "to stuff sausage." What you do is to stuff envelopes instead of skins.

Of course, when people are making as little as some of these reporters make—say, 4,000 pesos for a column—they are very susceptible to this kind of practice.

I mention it because in 1983, in May, I went to Panama and to every Central American country on a tour, to inform myself and to meet my colleagues in these area, and to get a briefing from the military in Panama.

On my return to Mexico, I found that I really had not been in Panama and in the Central American countries at all; I had been in Sonora, making mischief, intervening, as the United States is wont to do, and trying to somehow unbalance the political process there.

It got to the point that no amount of clarification about where I truly had been would rectify the lies and the distortion.

In fact, it got to the point where the papers even said that my mother—who happened to have been born in that State, but who has been an American citizen virtually all of her life—was leading a plot for the secession of the State of Sonora from the Mexican union to join the United States. [Laughter.]

That was printed in the Mexican newspapers.

That is pathetic and lamentable on one side, and extremely worrisome on the other, that they would have to go to such extremes in order to try to defend a situation, and that they would go to such extremes in the direction that they were taking by whoever was giving them the cash-stuffed envelopes.

I mention it because all of that has to impact on our relationship.

It is extremely negative to let that happen. But it is amazing how many people are taken in by it and by the control that one must infer from that kind of situation.

A few months ago, in Mexico, I was asked to speak to the Harvard alumni at a breakfast. One man stood up during the question and answer period and showed me a sheaf of clippings from American newspapers—articles critical of some aspect of Mexico or its systems.

When he finished, I asked him what his point was and what his question was, and it was this. He said, "Why doesn't the U.S. Government stop this? "

I responded to him that for every one of those clippings, I could show him a thousand where the press had been critical of my President and of our administration. And I asked him, because I could not help wondering what he had done while he was at Harvard, if he had been exposed to our media. I mean, surely while he was there he went to class, he went to the Yard, he went to Durgin Park, he went to the Colony Theater, he went to the concerts, he went to the bay, and did he not see our newspapers and television?

The point I am trying to make is that even when people come to our country, they sometimes fail to see that because of practices that they have gotten used to in their own.

Senator HELMS. I'm sure that is correct.

You are not to worry about what was said about your mother. Newsweek magazine found a quote in one of the Mexican newspapers referring to me. It described me as a "potsmoking gringo tourist, who smuggles cocaine."

That is what you call objective journalism, I guess.

I have one final question.

The report, which I believe to be accurate and authentic, about double sets of books on the elections, has enraged a lot of people in Mexico. Isn't it common knowledge that they keep double sets of books on elections?

Ambassador GAVIN. Well, Senator, that is the allegation of the opposition. There is a great resentment on the part of those people who support those parties. They feel that they have been defrauded.

Whether that is true or not I think it is better for me to not comment on here.

What I would say is that Mexico has a very great opportunity at this time if its leaders will grasp it.

Here I will be chastized for intervening and interfering, but I am going to hazard these attacks again. I have had many before and one or two more I do not think are going to hurt me.

They have a great opportunity to move their system toward a more perfect democracy. They must make the choice on how they do that, whether they do it by opening up their processes or whether they draw themselves in and become more rigid.

I would hope that, as the next few years play out, that Mexico will find ways and that its leaders will find ways to dissipate the problems they have and to find solutions in the social, in the economic, and in the political arenas.

Senator HELMS. One final question and then we will hear from the distinguished Governor, Mr. Babbitt.

Back when the Philippines election was about to occur and there were apprehensions that there would be fraud, the United States and other countries asked that observers be permitted to come in.

Now you, yourself, have acknowledged that the electoral process there is somewhat less than straight.

Ambassador GAVIN. Well, no, Senator. I think what I have done, with all respect, is I have said that there are Mexicans who have said that. I am trying to be a reporter. I am trying to be an honest broker here. Mexicans, many Mexicans, have said that. Many Mexicans do say that.

In reporting that to you, I am not giving you an opinion of mine. I am reporting to you what many Mexicans say.

Senator HELMS. Well, in any case, since the reports came from the Philippines of fraud and we have sent in observers, what would you think if Mexico, in good faith, said come on in and watch our electoral process? Would you be in favor of that?

Ambassador GAVIN. Well, Senator, when the elections were taking place in El Salvador—which, as you know, took place with observers from many countries in the world—these last three open elections that they have celebrated—let's use that word, because it is a celebration, I think, for a country that has had the problems that it has. I suggested to a certain high official in Mexico that perhaps Mexico might wish to have obserers there, too.

The notion was rejected on the grounds that Mexico neither sends observers nor receives them.

Senator HELMS. Thank you very much, Mr. Ambassador.

We appreciate your patience. It has been a joy to have you here.

Ambassador GAVIN. Thank you, sir.

Senator HELMS. Gov. Bruce Babbitt of Arizona has been waiting. We want to welcome you to the committee, sir.

Thank you for coming.

Governor, let us let the room clear so that you can proceed under a more orderly set of circumstances.

[Pause.]

Senator HELMS. Please proceed.

STATEMENT OF HON. BRUCE BABBITT, GOVERNOR OF THE STATE OF ARIZONA

Governor BABBITT. Mr. Chairman, thank you very much.

I have a written statement, and with your leave, I would propose to submit it and simply abstract my remarks.

Let me at the outset tell you, by way of disclaimer, that, although I am currently the chairman of a Council on Foreign Relations study group involving Mexican issues and, indeed, involving many of the people in this hearing room, obviously I am here testifying solely on my own behalf.

Mr. Chairman, I would like to step outside of my statement to add a comment about the exchange between yourself and Ambassador Gavin with respect to the Governor of Sonora.

Sonora is the neighboring state to Arizona. We spend a great deal of time with matters in that state, and I have come to know Gov. Felix Valdes very, very closely. I consider him a personal friend.

When Mr. von Raab made those statements, I received a call from Gov. Felix Valdes, and he invited me, with some sense of urgency, to come to Mexico and to discuss that matter with him.

I went down that weekend to Puerto Penasco, and we spent several hours alone discussing that matter, and I subsequently had occasion to discuss it a week later with both him and President de la Madrid.

What I would add is simply this.

As Ambassador Gavin indicated, Felix Valdes was sent as the PRI candidate, handpicked as a government manifestation of the need to put the very best firepower of the Mexican Government up in Sonora. He is a superb person.

He was taken from being the Minister of Communications and Transport and sent to Sonora.

He has, overnight, upped the level of communication and work across that border by an extraordinary degree.

This allegation has caused a great deal of difficulty. It has cut very deeply.

I believe, Mr. Chairman, that we could all do our relations and Gov. Felix Valdes a great service by asking the administration simply to lay that matter to rest with a written retraction and apology. I think we should get it behind us.

I would like, if I might, briefly, to focus on the debt crisis and to describe to you how I believe the debt crisis can be used to make progress on all of these issues that we have talked about today.

I believe that the debt crisis is very real and that Mexico is on the brink of serious, serious social, political, and economic difficulties. The troubles that began 4 years ago have only worsened, and I think there is a point beyond which it will be very, very difficult to retrieve that situation.

I would underline that with just a word or two of history.

The departure of Silva Herzog last week marks the beginning of a crisis of transition. It happens every 6 years in Mexican history. If history is any guide, that crisis of transition is going to be a very difficult time.

It last happened 6 years ago, when Lopez Portillo handled the succession that raised a lot of populist politics and issues and resulted in the nationalization, lamentably, of the Mexican banking system.

Six years before that, the transition was from President Luis Echeverria, and that transition was marked by a great increase in the volume of political debate, by a move to the left, and ultimately the massive expropriation of private property.

Now, the crisis is going to get worse in coming months precisely because of these transition politics. It will give rise to an intense political debate, a certain amount of xenophobia, and, I believe, a heightening of this debt crisis with, if history is any guide, a real chance of unilateral repudiation of that debt, because of this intensification of the political process.

Now, it seems to me that this crisis is also an opportunity.

The efforts that Mr. Volcker and the IMF and the administration are making right now are plainly inadequate. They are going to prolong the crisis and heighten the chances of a unilateral repudiation, for this reason.

The current debt negotiations propose that the New York banks send down more money so that it can be sent back. It will solve nothing, and it will prolong the debt crisis right into the midst of the most difficult political transition.

My suggestion, Senator, is that we should think big. We should think of this as an opportunity for a grand solution.

I think it has to be a solution of two parts. It has to be a solution of give and take on both sides.

Now, the first side of the solution is attention to the debt crisis. Let me describe it in this way.

I think we are all familiar with the depth of the economic difficulties of Mexico. The debt that Mexico owes as a percentage of GNP is twice the reparations that were imposed on Germany by the Treaty of Versailles at the end of World War I. It is a burden which cannot be managed. Pursuing the historical analogy of what happened to Germany, I think anybody who is a serious student of our relations will come to the conclusion that it is a political necessity to restructure that debt, to cut the debt service in half, by 50 percent.

Now, Senator, I share your feeling that it should not be done by the use of taxpayer money. I believe there are a lot of other ways to do it.

It can be done by stretching out maturity dates, by capitalizing the interest, by dealing in the secondary markets for those loans. There is already a secondary market. Some of the banks have been selling those loans at a discount. They could sell them at a discount on the condition that the Mexican Government redeem them at face value in pesos, conditioned, in turn, upon the commitment to keep the money in Mexico and invest it.

There are many, many ways to cut that debt service in half.

Senator, it is not being done because the New York banks obviously have no interest in doing it. They are creditors. They view their role as demanding payment. The future of Mexico is not their primary concern.

I believe it is a political issue, and I believe that this committee, yourself as chairman and this administration, have both an obligation and a wonderful opportunity to step into those negotiations and to say restructuring of this debt is a matter of national security and the future of our respective countries. It is another way of saying it is not an issue exclusively for the New York banks; it is an issue for this administration and this Congress.

Now, in exchange for that, it seems to me that it is appropriate to discuss issues that you raised with Ambassador Gavin, because debt restructuring alone, as Ambassador Gavin so eloquently said, is not enough. Unless it is accompanied by economic liberalization in Mexico, it will prove to be unavailing.

Now, the Ambassador spoke in a very compelling way of the issues of the liberalization of the difficulty. Every economist in sight, I think, will agree as to what the issues are: trade liberalization, a stepped-up entry into the GATT, dismantling of an import substitution economy that has developed in Mexico; spinning off the parastate industries; getting the eternal heavy hand of the state off the economic system; reducing subsidies; dealing with the budgetary issues; looking at inventions with respect to intellectual property, patents, and the like; and getting at the issues of capital flight and foreign investment.

Now, the opportunity, it seems to me, is to say to the Mexicans clearly, up front, we are prepared to make dramatic concessions with respect to the debt in exchange for dramatic commitments to liberalization of the Mexican economy.

If the two are put together, one conditioned upon the other, there will be a lot of squawking—a lot of squawking in Mexico about the issues of sovereignty, and a lot of squawking in New York about invasion of their sovereignty on Wall Street. But I would suggest that the national interest of both countries would be deeply and well served by your attention to that kind of linkage, and a strong message to both New York City and Mexico City that it is time to get creative about these very basic reforms.

Lastly, I would like, if I might, to add a word or two on a personal level.

As I mentioned, I have been the Governor of a border State and have worked closely, directly, and fruitfully over the years with the Governors of the border States, with Cabinet members, and with the President himself. These are honorable people. They have tried hard. They have exerted themselves. They understand the depth and complexity of these issues and their obligation to act.

Mr. Chairman, I cannot imagine what has been gained by maligning their integrity, and I cannot imagine what has impelled the use of this forum for unfounded charges of criminal behavior and for sweeping accusations on undisclosed evidence of electoral fraud on a scale which bears on the legitimacy of the Mexican Government.

Mr. Chairman, I feel compelled to say, with all respect, that that aspect of these hearings has had a profoundly destructive influence on this relationship at the very time that we need to act with care and vigor.

I would suggest, in closing, Senator, that there does remain an opportunity, a very important one, to use this forum to elevate Mexico to its proper place in national policy, to begin a constructive, frank, and positive dialogue and in this respect, Senator, I thank you very much for having me here and for addressing these issues.

[The prepared statement of Governor Babbitt appears in the appendix.]

Senator **Helms**. Of course, I thank you for coming, Governor. I agree that a high degree of creativity is going to be essential if a disaster is to be avoided in Mexico.

The point is that you don't have much room for creativity unless job opportunities are increased for the Mexican people, unless the free enterprise system is implemented, instead of the socialist economy down there now. This is because if these things are not done, there is no possible creativity that can be effective.

Now we are going to continue to have the massive migration of people over the border, which you know so much about. We are going to have the massive flight of capital and all of those things.

Now I really would like to spend some time with you, either here this afternoon in public, or in private, and have you identify the charges that you say are irresponsible.

Now Ambassador Gavin said earlier today that he visited with Mr. von Raab and Mr. von Raab, according to the distinguished Ambassador, has information that he had not seen.

I would ask you if you have had access to precisely what Mr. von Raab testified to? Have you read precisely his answer to the questions?

Governor **Babbitt**. Yes, Senator, I have.

Senator **Helms**. Was there anything in that transcript saying that the Governor of Sonora was aware of the substances grown on the ranches? That is one thing that Mr. von Raab did not say.

The problem in communications in this country, perhaps everywhere, is not so much what people say but what they are reputed to have said when they did not say it.

Now I am going to have to defend Willy von Raab. As Jack Gavin said, he is a very fine Director of Customs. He happened maybe to offend a friend of yours. And I am sure that your friend has the nobility that you said he does. But I cannot let go unchallenged the inference—and I hope I may have inferred it incorrectly—that Mr. von Raab somehow engaged in irresponsibility unless and until you have seen the information that he has, and perhaps I can arrange for you to see it.

Governor BABBITT. I accept.

Senator HELMS. OK.

Now, I am aware of the importance to your State and to your people of the best possible relationship with Mexico. As you have said, you border on Sonora.

Now, precisely what would you like to see develop in our economic relations to promote the progress that we would both like to see on both sides of the border?

I would like for you to talk a little about that.

Governor BABBITT. Senator, I think the most important thing that this committee could do would be to bring the New York bankers into this forum and to enlist the cooperation of observers and students of the Mexican Government and all of the other parties and ask them this question: Why can't we put together a grand plan to get the millstone of that debt service off the back of Mexico and at the same time move to a plan of economic liberalization that would address all of these market issues that I think you are so correctly concerned about. I think it is an opportunity that will be gone in another 6 months because in another 6 months, the system, in a phenomenon not unknown in this country, will turn inward, into the vortex of Presidential politics. I believe we have only the balance of this year.

Senator HELMS. Well, you and I agree about the New York banks, absolutely.

Governor BABBITT. One populist to another. [Laughter]

Senator HELMS. The New York banks were very much involved in what I call the giveaway of the Panama Canal. That treaty would never have been approved by the U.S. Senate had it not been for the pressures of the big New York banks, and some of them not in New York. Now that is a known fact.

But I guess I've got to get back to the original question that I asked you. You didn't avoid it, but I don't believe you responded specifically.

Do you really think that any creative arrangement about stretching out the debt, the interest and so forth, would have any real benefit for the Mexican people, who need jobs, who need and deserve, in my judgment, free elections?

Now we have a tub full of letters, telegrams, and so forth from the Mexican people who are saying "hooray," proceed. What has been pointed out many times in these hearings is that unless and until there is a modification of that socialist government, that one-party government, that socialist economy, no matter how creative you are, no matter how many of the banks you draw in, it is going to be for naught because the problem is going to recur.

I think those of us—you, me, and all the rest of us—who believe in the free enterprise system understand this. So how do we get a handle on it, Governor? I think that is what I am trying to ask you.

Governor BABBITT. Senator, I am not as pessimistic as you are. I honestly believe that, if we could find a political forum in which to address these issues with the participation of the Mexican Government, economic linkage, that is, debt relief in exchange for liberalization, economic reform, is a manageable goal, and that we could get some very dramatic results.

Senator HELMS. Well, maybe I don't know what you mean by liberalization.

Governor BABBITT. Senator, I apologize for using that word. [Laughter.]

Senator HELMS. No need to apologize. Just explain it to me.

Governor BABBITT. I use that word not in the political sense, but in the classical economic sense of saying in exchange for reducing the debt, we must talk about how it is you move toward a competitive, market economy.

Senator HELMS. Then we're saying the same thing.

Governor BABBITT. Senator, we're there. I believe you will find the concept appealing.

Senator HELMS. Well, if we are saying the same thing, I found it appealing when I opened these hearings. I was saying that unless and until they move away from socialism they have a bleak future, and I don't think that the American taxpayers ought to bail out the New York banks to go over again what happened in 1982.

Now, where do you and I differ on that?

Governor BABBITT. Senator, we might differ on our use of adjectives. But I believe in terms of the concept, in terms of the economic imperatives, I believe we are very close. And I believe that you and this committee can send a powerful message to Mr. Volcker, James Baker, and the others, and the message is as follows: Be prepared to make real concessions in terms of relieving the debt in exchange for real commitments to lower trade barriers, stimulate foreign investment, and restore a market economy.

Senator HELMS. Governor, I think I agree with you.

You are saying that there should be a linkage between whatever is done and the negotiations and that sort of thing, that there should be a linkage to Mexico's accepting free market principles. Is that what you're saying to me?

Governor BABBITT. Senator, we're getting awfully close. It almost makes me nervous—but yes, yes. [Laughter.]

Senator HELMS. You know, don't hesitate to be conservative. It works out all right. [Laughter.]

Thank you very much.

Pete, do you have any questions.

Senator WILSON. Yes, I do have questions. Thank you.

Governor Babbitt, first, I thank you for coming. Your reputation in my State is a very good one. We are neighbors, and we share, I think, the experience of having been involved with Mexican colleagues for many years.

On the whole, I think we would agree that it has been a very rewarding experience. While I am tempted to pursue the line of questioning that has forged this new liberal-conservative alliance between you and the chairman, I am going to resist that temptation and turn, instead, to another part of your testimony.

I found most of the part that I am going to focus on now to make quite a lot of sense. But, perhaps without intending to do so, I think that you have created an unfortunate impression. The concluding phrase in your testimony is, "Don't kick it, Mexico. Let's offer it a hand."

And you have offered a little advice to the chairman that there is little to gain by maligning the integrity of Mexican officials, and say, "I cannot imagine what has impelled the use of this forum for ungrounded charges of criminal behavior."

Now, as your predecessor at the witness table, Ambassador Gavin, told us, Mexico is not a monolith. And neither are generalizations about Mexican officials, any more than any others, going to be valid.

But I think that you would agree that there has been clear evidence of corruption on the part of Mexican law enforcement officials at high levels, and to a degree that is really intolerable.

Would you not?

Goervnor **Babbitt**. Senator, I will give you a direct answer by reference, first, to Jack Gavin's response.

Jack referred to those issues by saying "it is alleged by the Mexican people." What he really meant by answering the question that way was that the specific issues of electoral fraud and corruption, which occur in every society, do, in fact, constitute a substantial problem in Mexico.

The normal way of handling those issues is to deal directly with the people involved. During my career as a prosecutor, I think we had a lot of success doing that, with the Attorney General of Mexico and, from time to time, with the President.

Are there problems? Yes. They are very real.

The question is how you get a result.

I thought Ambassador Gavin was pretty sensitive on that and that he sent a signal about how he really feels about it.

Senator **Wilson**. Well, I think the point, though, is that this forum and a number of others on both sides of this Hill I think are entirely appropriate to raise what is a very real problem, one that has resulted in the deaths of American law enforcement officials——

Governor **Babbitt**. As well as several hundred Mexican law enforcement officials.

Senator **Wilson** [continuing]. As well as many, many Mexicans.

Governor **Babbitt**. Several hundred, yes.

Senator **Wilson**. This, in my judgment, makes the problem more imperative.

I went with Ambassador Gavin to the funeral of Enrique Camarena. The fact is that he was abducted, tortured, and murdered by law enforcement officials in the pay of Mexican drug traffickers. I think that those in this forum, those in this Congress, have not just the right, but the absolute obligation to see to it that justice is done and to demand an accounting from the highest Mexican officials.

Now our Justice Department has been working with the Attorney General of Mexico. They are persuaded of his probity and of his sincerity. But the fact is that there is widespread corruption among Mexican law enforcement officials. The drug traffickers have achieved a power due to the immensely profitable trade in which they are engaged that has made them virtually autonomous.

This is a problem, as you correctly point out, for Mexico and for the American people, certainly for those agents whose lives are literally on the line, not just in Mexico, and not just the DEA agents, but also for the street cops in Los Angeles, Phoenix, Tucson, San Diego, and in Chicago and Washington who, as a result of that traffic are living far more dangerous lives than they should be.

So I would say that the testimony of Commissioner von Raab in that forum, the testimony of Stephen Trott, the Assistant Attorney General of the United States in charge of the Criminal Division, and that of William Logan, the Acting Regional Commissioner of Customs, when they testified before your very good Senator, Dennis DeConcini and me in Los Angeles, when we held a joint hearing, is something that requires a great deal more attention, very candidly, than it has had in either country.

Governor BABBITT. I certainly agree with that.

Senator WILSON. I would suggest, then, that perhaps without intending to, you have been a bit sweeping in your admonition.

Governor BABBITT. Senator, I don't think so for this reason. We all share the goal. The question is how best to improve the cooperation and to get at these issues.

It is my judgment that it rapidly becomes counterproductive to make sensational allegations against specific individuals. It has, I think, in many ways a very counterproductive effect.

My experience in this field on the border, as a prosecutor and as a Governor, has been that yes, these issues in general terms are fair subjects for discussion and ought to be discussed. The issues of specific personnel and allegations ought to be dealt with directly and privately with Mexican officials.

I have found on many occasions that you can get results where there is a specific problem by dealing in that fashion. I don't think you get those results in the newspapers.

Senator WILSON. Well, with all due respect, I think that it is a little naive to anticipate that those who are involved in the corruption are going to be very cooperative in dealing with that problem.

I would quite agree that we and anyone else who takes it upon himself to address it has an obligation to do so very, very carefully and, incidentally, in conjunction with the executive branch in the efforts that they are making.

But I think there is something to be said for shedding light in a careful fashion, and not sensationalizing it unless the truth be itself sensational; in which case I think we are impelled to spread the truth before the public in this country and in Mexico. In many instances, in all too many, that simply has not yet been done.

Now, if anything, this Nation as a nation, has exhibited the greatest restraint. We have been sensitive to the feelings on the part of Mexicans, understandably proud of their nation. But we cannot, I think, forever allow that sensitivity stand in the way of asking very, very hard questions, and not just privately, but also publicly when the private negotiations prove either not to bear fruit or to be so slow in producing any perceptible gain that, in fact, time passes on and the incidents that outraged people pass from memory.

I think that patience is a virtue up to a point. But I also think that we are under an obligation to pursue very vigorously the interests of the United States which, I agree, again, may often coincide with those of the Mexican people.

In the hearing that we held in Los Angeles, Senator DeConcini and I were appalled by some of the testimony that we received, some that involved the slaughter of Mexican peasants as recently as last April by those who were nominally law enforcement officials, again, in the pay of traffickers.

So this is not purely an American problem. But it is an American problem and, for that reason, we are, I think, obliged to be aggressive as well as careful in pursuing it.

Governor BABBITT. Senator, I would only say that we share the ends. We must be extraordinarily careful about the means.

I believe that questioning the legitimacy of the mandate of the President of Mexico is a grave, grave mistake. I believe the kind of personal defamation Commissioner von Raab has engaged in is a grave mistake. I would implore you to structure this inquiry in a way that achieves the ends without engaging that kind of rhetoric, because all it will do is frustrate the ability of the American people to work these problems out.

Senator WILSON. Well, defamation obviously is an unacceptable tactic. But what I would have to say is the kind of inquiry that is being made has to be made. I think it is long overdue. I think that the failure to make it would be real dereliction on the part of the Senate and on the part of the House. The efforts of the executive branch, working with their counterparts in Mexico, I do not think are impeded by the kind of public disclosure of the truth which, however painful, is, in fact, the truth.

This is what we are talking about—the necessity to bring the truth before the peoples of both nations, defaming no one, but seeing to it that people understand what, in fact, is going on, and why it was that this young drug agent was abducted, why it was that he was tortured, what it was that his abductors were seeking to learn from him, and how it was that they, as law enforcement officials, were doing this when, in fact, they were not in the pay of the Mexican people, certainly not doing their work, not performing a duty to keep the Mexican people safe, but, in fact, were doing what they were paid to do by someone who is making immense illegal profits.

I would suggest to you that you not only accept the invitation, as you have, from the chairman to look at the transcript of Commissioner von Raab's testimony—and I will allow him to defend himself——

Governor BABBITT. Senator, let me say that I have read the transcript of the testimony, and I do believe that it is defamation—pure and simple—with respect to those comments.

Senator WILSON. Let me urge that you also, because of your interest in this and particularly as a former prosecutor, read what I think you will be permitted to read from official Justice Department investigations——

Governor BABBITT. OK. I have not read that.

Senator WILSON [continuing]. And I will make available to you the transcript from the Los Angeles hearing that was held by Senator DeConcini and myself. I might add that the testimony there included testimony from the sheriff and police chief of Los Angeles County about the impact, in the very recent past, of the drug traffic and its increase upon their responsibilities for the safety of the people of Los Angeles City and Los Angeles County. It is not just stunning testimony. It is genuinely alarming.

As the Governor of Arizona, I think that, while you are by no means without knowledge of some of what has gone on, I think you would be genuinely staggered by this testimony.

Let me—oh, I see the red light is on, Mr. Chairman. I will not impose.

Senator HELMS. Go right ahead.

Senator WILSON. Let me shift to another subject, that of illegal immigration.

In the context of the collegial relationships that you have had with Mexican officials, what discussion have you had, other than casual conversation, in terms of a Mexican response to the problem? It is obvious that the economic crisis in Mexico, which has grown aggravated over the years, has produced a situation there where the Mexican economy is unable to employ a burgeoning Mexican population which, in turn, has produced pressures on our own border.

Have you ever discussed with any of your Mexican colleagues any role that they might have in trying to staunch this massive flow of illegal immigration?

Governor BABBITT. Senator, we have discussed it at great length in private. It is an excruciating and difficult problem, and I do not think that it is reasonable to ask the Mexicans to forcibly detain people from crossing the border. I don't think it will ever happen.

I think short of that the Mexican Government has been and is prepared to discuss economic steps, juridical steps, and methods of cooperation. And I might add that there is a limited measure of that kind of cooperation right now.

If you spend a night, and I suspect you have, out there in the war zone of San Ysidro, watching that nightly drama unfold, it is obvious that there is a working relationship between the Mexicans and the Border Patrol. It does not extend, and I doubt that it ever will, to restraining Mexican citizens from attempting to leave the country.

Given that, I think there are real possibilities.

Senator WILSON. Forgive me for now knowing, as I should, but are you a supporter of the Simpson legislation?

Governor BABBITT. Senator, I am a mild opponent of the legislation because I do not believe that it is going to make much difference one way or the other. I do believe that we must step up the level of resources along the border. The Border Patrol is pathetic in its understaffing.

I spent a whole night flying with them in the war zone in San Ysidro, and it is pathetic, what is going on there. They need the resources.

The amnesty grant—I'm not sure of its exact form—is an inducement to more immigration, for reasons that I think are pretty obvious. If you grant amnesty once, the American character is generous and repetitive and amnesty is a signal to all of those folks down there that there will be some more amnesty somewhere down the line.

The employer sanctions would probably be a slight deterrent. I would guess the two would cancel each other out and the net effect would be zero.

Senator **Wilson**. The employer sanctions you think would have a slight effect? In other words, what you are saying is that even if those who crossed the border illegally were persuaded that somehow they would not find employment, they would come in any case?

Governor **Babbitt**. No, Senator. I think what I am saying is that, once again, given all of the realities of border culture and the agricultural needs and all of the things that have grown up across the years, the sanctions would be nearly impossible to enforce on a comprehensive basis, short of turning the Southwest into a minipolice state.

I just do not think it can be upheld. We have lots of laws in this country which are honored in the breach, and I suspect this will be one more example.

Senator **Wilson**. Well, that may well be the case.

Let me put the question to you, though, again. If, hypothetically, those who now no longer come as single young men——

Governor **Babbitt**. Senator, I'll answer your hypothetical really quickly. Sure. If the law were actually capable of systematic and thorough execution, would it be a deterrent to immigration? Yes, of course it would.

Senator **Wilson**. Do you think that there would be some who would come in any case?

Governor **Babbitt**. Oh, sure. But not as many.

Senator **Wilson**. Well, you see, I have reluctantly supported the legislation, after voting against it the first time. I did so because I had very real doubts that the sanctions would be effective to deal with the problem. I don't know whether they will staunch what is now a hemorrhaging flow. I mean, it is 1.8 million people in the first 3 months of this year at the San Ysidro border.

But I am also persuaded that if, hypothetically a number of people who make that very difficult trip—and it is a perilous trip. The movie, "El Norte," I suspect did not exaggerate it a bit. The flamboyant chronicle of the San Diego police border task force and Joe Wambaugh's book, "Lions and Shadows," gives some idea of some of the perils.

But people are impelled to make that trip I think not just in the hope of finding a job. They no longer come, as you know, just as young men, one at a time. They now come in families. The grandparents come, carrying the babies. People are impelled to do that for another reason.

For this reason, I am inclined to think that some would come even if they thought they would never work—as, indeed, many have come from the Frost Belt to your State and to mine, and I suspect to the chairman's, when they did not really expect to find employment but thought they might be better unemployed in the Sun of Phoenix and Tucson than where they came from.

Governor BABBITT. And their children will be American citizens.

Senator WILSON. Exactly.

Given that situation, I would ask this. However difficult or unpalatable you might find it, is it perhaps not realistic to discuss with Mexican officials some steps that they would take on their part to restrain the kind of massive, hemorrhaging illegal immigration that is occurring in the United States today, with a result, I must tell you, in my State—and I would be very interested in your experience—that the attitudes of people have changed markedly, just in the time that I have been in the Senate.

The fear, the resentment that is now incurred by the extent of this problem is something that is new—new, at least in the dimension that I find it now.

Governor BABBITT. Senator, the model for countries that tell their citizens they cannot leave is the Soviet Union, and I simply do not think that the forcible detention of people within their boundaries is realistic.

Senator WILSON. Let me interrupt you because I think that attempted analogy falls far short. It misses a critical distinction.

The Soviet Union—and I assume you are referring to the celebrated examples of Soviet Jewry seeking to emigrate to Israel, to the United States, and to other parts—a nation that restrains those who wish to leave, who are welcome in another country is a very different situation than a nation that is restraining those who wish to leave in cooperation with the receiving nation that says we want cooperation, we want commerce, but we cannot accept endlessly citizens from any nation, many of whom are not Mexican.

I think that is a very critical distinction.

Governor BABBITT. Senator, I believe that there are areas that could be improved. Although I do not accept your ultimate conclusion, I certainly agree that it is a subject that deserves more careful discussion and exploration of ways and means of reducing the pressure.

Senator HELMS. All right. We have a vote on.

Senator WILSON. Thank you very much.

Senator HELMS. I still want to hear Governor Anaya.

Governor BABBITT. Thank you, Mr. Chairman.

Senator HELMS. Before you leave, let me say that I have learned that Commissioner von Raab is out of the country until next week. I cannot speak for him about what he would want to do, and I certainly cannot speak for anybody in the executive branch on the release of classified information.

But I will say that there would be a far greater understanding and perhaps more resentment in Mexico if what we learned in executive session could be made public.

Now, one thing that is not classified, and I have not heard you address it, is that the police system in Mexico is so corrupt that they give police escort to drug runners, with the blue lights and the sirens. Now that is uncontested. That was testified to by officials of this Government—the Justice Department, the DEA, Customs, and so forth.

I don't understand why we have to be so worried about the resentment in Mexico when they go to the United Nations and do not hesitate to condemn the United States, and that sort of thing.

So maybe this business of friendship ought to be a little more of a two-way street, sir. I have not noticed it. But I say again that I have the highest admiration for the Mexican people. It is the people running that socialist government down there—and I hope, Governor, that you are not defending that kind of system. I don't believe you are. Because that is the ultimate question—do they want to stay on the slippery slope, and no amount of creativity and no amount of billions of dollars from the New York banks, bailed out by the U.S. taxpayers, is going to correct that situation.

Governor **Babbitt**. Senator, by way of a final remark, the Mexican people are not unaware and not uncritical. There is a fascinating book that became a best seller in Mexico, called "El Negro del Negro Durazo." I would recommend that your able staff, sitting back there, translate that book and let you all read it, because it is fascinating stuff. It is some indication, I think a very revealing indication, that this issue is under a lot of discussion in Mexico.

Senator **Helms**. Well, thank you very much, Governor.

We will now welcome the distinguished Governor from New Mexico, Mr. Toney Anaya. I am sorry you had to wait for so long.

I didn't know you were coming, Governor.

I do have the constraints of the roll call vote, but I will stay as long as I can.

STATEMENT OF HON. TONEY ANAYA, GOVERNOR OF THE STATE OF NEW MEXICO

Governor **Anaya**. Mr. Chairman, I will be very brief, and I do thank you for allowing me to appear before you. I was not on your agenda, and you have been gracious enough to permit me to appear. I was here on another activity today, and heard of your hearing, and wanted very much to come by.

I am here, Mr. Chairman, for two points: one, to strongly, as a border State Governor, denounce the impressions, at least, that are being left by a number of efforts in this country that depict Mexican Nationals as nothing but drug dealers or criminals. I have been sitting here, listening to the debate today. I have listened to the questions and answers.

I have also read the press coverage, although I recognize, as the Chair has indicated, those are not always the most accurate portrayals of what has happened. But I have been concerned, as a border Governor, in the relationshps that we have established with Mexico, that it has threatened the relationships that we have in New Mexico with Mexico, and I am concerned about the threat to the relationship that this country should be establishing with the sovereign nation of Mexico.

Mexico, as has been testified to over and over again, and as the Chair knows better than I, is right now in a time of need. I think it is time for us to be responding with the generosity of a friend, not unmindful of their problems, not unmindful of some of the concerns that have been expressed, but perhaps in a different format, a different forum, or at least a different approach.

With respect to the question of international debt, I will just make a quick observation. The old saying about war being too important to be left to the generals is important with respect to the international debt. Also, the international debt crisis is too important to be left exclusively to the bankers.

Governor Babbitt had some recommendations with respect to what could be done there. I could only suggest that during the National Governors' Conference that will be held this summer in your part of the country, I do intend at that point to proceed with a conference that we have been trying to put together to discuss international debt and the international environment, by way of trying to tie some of the either international debt forgiveness or possibly restructuring some of the international debts with commitments from these countries—in this case, particularly Mexico—that they would take steps in areas of interest to the United States, for example, in the environmental area, to insure that they set aside forest lands, that they protect their environment, that they take various steps in that regard that not only would be good for this country, but good for theirs as well.

A strong and economically growing Mexico is critical to a broad concern of social, political, economic, and even security considerations in America.

If a Marshall plan was good enough for Europe and America, then I feel that a generous response to the Mexican debt crisis is something that will be in the long-run interests of America. It is not unreasonable to allow Mexico to pay its debt payments according to its ability to pay. If the stakes were high for Europe after World War II, I think that the stakes are even higher in Mexico and Latin America today, as was testified earlier. I would draw upon testimony from the earlier witness, Ambassador Gavin.

I feel that any further belt-tightening—and I have seen some of it in Mexico—is simply going to create instability, unemployment, inflation, and we are not going to be able to solve the overall debt problem in that fashion.

I would submit, respectfully, that the impression being left, at least in my State, in my part of the country, is that we, in this country, have undertaken Mexican-bashing, and I can appreciate the Chair's comments a little while ago about maybe American-bashing having been undertaken from time to time. Mexico does share a 2,000-mile border with us, much of it with my State.

They are our third largest customer for American-made goods. They are an ally. They have a truly special relationship with us.

We ought to take a present, rocky foundation and build a relationship of granite rock.

Mexico can help us in our quest to end turmoil in Central and South America. They can help us instemming the flow of undocumented aliens and narcotics trafficking. They can help protect our country from terrorists who can easily, and freely, flow across the Mexico-United States border.

We need, in my judgment, bilateral development cooperation between the United States and Mexico.

Senator **Helms**. Governor, excuse me, please. I have 2 minutes to get to the floor to vote.

Would you please forgive me for the fix I am in, and continue your statement. It will be made a part of the record.

I do thank you for coming and I simply must go. I wish you well.

Governor ANAYA. Mr. Chairman, thank you very much. I will read the rest of it into the record.

We need bilateral development cooperation between the United States and Mexico, not unilateral confrontation. The self-righteous attitude of some of the individuals in the United States will not lead to the internal growth in jobs and production in Mexico which, I believe, is the only real hope for Mexico and for us.

We do have a special relationship between Mexico and New Mexico, a relationship which I feel can grow to a special relationship between the United States and Mexico.

On a recent trip to Mexico, I had the opportunity to visit with President de la Madrid, as well as all of his Cabinet and other high-ranking officials. There is a great deal of concern about the comments that have been flowing from this committee hearing, and other comments coming from high-ranking officials in the administration.

I am greatly concerned that the overall impression is being left by the manner in which these proceedings are being conducted is that we are going out of our way to establish a direct confrontation between the United States and Mexico.

I would urge this committee, I would urge this Congress, to not ignore the problems that have already been discussed, to not ignore the need to bring those to the attention of appropriate officials in Mexico, but to concentrate the resources in this Congress, to concentrate the resources of the administration in trying to develop a solid relationship with the country of Mexico for the benefit of us all.

There are many other points that specifically could be made. I will be contacting the Chair for permission to expand on these comments in writing.

But I believe that some of the other comments that Senator Wilson raised with respect to the questioning of Governor Babbitt on illegal immigration, narcotics trafficking—these other issues can be resolved if we can work cooperatively with Mexico. But I would never blame them for refusing to even discuss in the same forum these major issues as long as the impression is continued to be left that the Government of the United States has no respect for the sovereignty of a sovereign nation, Mexico, that we feel that we are lumping all officials and all Mexicans into the same pot as those who have been accused, for whatever reasons.

There are many examples that have been given of corruption, either in election or law enforcement. We should not condone those. We can find those very types of examples of corruption right here in our own country.

While we are quick to point out the problems in Mexico, it appears that we continue to support governments in Central America and elsewhere that are guilty of even more heinous violations.

I am concerned that we are establishing a number of double standards that send out false signals all over this world.

I would implore this committee to look for constructive fashions in which the Government of the United States can work cooperatively with the Government of Mexico, where we have a marriage, whether we like it or not. They are our neighbors. They will continue to be our neighbors. It is not a marriage that can be dissolved by death. It is a marriage for better or worse, and we ought to make it for better.

Mr. Chairman, I thank you for the opportunity to appear before this committee, and I will contact your staff with respect to enlarging on the comments.

Dr. **Lucier**. Governor Anaya, we thank you for your thoughtful statement and for your patience.

The hearing is now adjourned.

[Whereupon, at 5:03 p.m., the subcommittee adjourned, subject to call of the Chair.]

APPENIX

PREPARED STATEMENT OF ELLIOTT ABRAMS

Mr. Chairman, Mexico is going through a period of severe social, economic and political strain. Under the pressure of falling oil prices and a $100 billion foreign debt burden, GNP has fallen by almost 5% since 1982 and real per capita income has declined by over 20 percent. GNP is expected to decline again in 1986.

New jobs are not being created fast enough to keep up with the 900,000 young people who enter the job market every year. Mexico's population, now 79 million people, will exceed 100 million by the year 2000. Many are flocking to overcrowded urban centers or moving north across the border in search of work.

Those coming north, with few exceptions, do so illegally. The Immigration and Naturalization Service reports dramatic increases in apprehensions, up to 1.3 million at last count in 1985 alone. This situation will get worse, seriously worse, unless and until Mexico gets its economic house in order sufficiently to meet its own employment needs without exporting workers.

It is hard to exaggerate the stake we have in Mexico's success in dealing with these problems. Our border economies are increasingly intertwined. Mexico is our third largest trading partner, our largest foreign oil supplier, the largest Latin American market for US agricultural exports, and the largest source of illegal immigrants into the US.

Mr. Chairman, most of the constant interactions between the two societies are handled out of the limelight and without much fanfare. The openness of the border reflects friendship as well as interdependence. We have become accustomed to managing problems involving everything from waste disposal to questions of personal and national identity.

Discussions between municipal, state and federal officials of both countries are frequent and candid. Contacts among business groups, academic institutions, and Mexican and American citizens from all walks of life are countless, particularly in the border areas. These frequent contacts typically lead to a process of give and take that prevents issues from becoming major problems or wider irritants.

This basically positive pattern of relationships is being challenged today by a formidable array of problems. And perhaps the most debilitating and frustrating are those created by narcotics and corruption.

Illegal Narcotics and Official Corruption.

During the 1970's and early 1980's, Mexico's illicit-drug eradication program was a model for the world. Through aggressive joint action, Mexican heroin's share of the US market dropped from more than 70% to less than 35%. This was a major accomplishment. So, too, was a similar significant reduction in marijuana exports to the U.S.

In the past few years, however, these positive trends have been reversed, and more drugs are being produced in Mexico and sold in the US. A new and distressing phenomenon is the growing use of Mexico as a transit point for cocaine destined for the US market, partly as a result of the South Florida task force's success in choking the drug trade through the Carribbean. Fully a third of the cocaine consumed in the United States in 1985 may have come through Mexico.

The drug trade poses a long-term threat to the political stability and social health of Mexican society that is fully as threatening as the damage the drug trade is having now on Mexico's image and reputation in the United States. President de la Madrid, Attorney General Garcia and many other Mexican officials understand this. Some Mexican officials at lower levels, however, have been corrupted by the vast sums of money available to the traffickers including many officials supposedly engaged in anti-narcotics efforts.

The problem of drug-related corruption is not unique to Mexico; it is a common occurrence in every drug-producing, -transiting or -consuming nation. It is a problem, however, which President de la Madrid has compared to "cancer." The analogy is apt. Like a cancer, the corruption induced by those in the drug traffic must be removed, and the sooner it is removed the better.

We have told the Mexicans in no uncertain terms that we are deeply troubled by widespread drug-related corruption. We have demonstrated how corrupt officials are undermining the once-model eradication program. We have insisted that corruption not be allowed to delay the prosecution of the traffickers responsible for the murder of DEA Agent Enrique Camarena in February 1985.

In an effort to reverse the slippage of the past few years, a number of steps have been taken to improve the effectiveness of the eradication program. The Mexican Government, with State

Department assistance, has conducted an aerial survey of poppy-growing areas and has begun intensive spraying with a new agricultural spray plane (the Turbo-Thrush), which promises to be more efficient than helicopters. The Mexicans have also agreed to improvements in the verification program. DEA reports significant improvement in the number of fields successfully eradicated. To improve spray techniques, we have engaged USDA and academic experts in herbicidal eradication. We have also assigned additional personnel to the Narcotics Assistance Unit in Mexico. And we intend to maintain a strong monitoring program to assure that eradication of opium poppy and cannabis gets back on track and stays there.

The Mexican Government knows that our concern is neither shallow nor transitory. And I am sure that the Mexican Government recognizes that our concern is not just that drug-related corruption leads to more plentiful, cheaper and more potent drugs. We are also concerned about the influence the traffickers are beginning to exert within Mexican society.

Economic Cooperation.

Mexico's continuing economic difficulties are a second vital source of concern to both governments. In 1982 the US played a key role in helping Mexico avoid default on its external debts. When President de la Madrid entered office a few months later, in December 1982, he faced a massive foreign debt-service burden, a huge public sector deficit, the exhaustion of foreign exchange reserves and triple digit inflation. He undertook a courageous program to restore Mexico's economic stability, including a reduction in Mexico's imports from $24 billion in 1981 to only $8.6 billion in 1983, a progressive reduction in the government deficit, the rescheduling of Mexico's debts to foreign private banks, and additional external financing.

By 1984, this stabilization program had strengthened Mexico's balance of payments, rebuilt foreign exchange reserves and reduced inflation and the public sector deficit. Mexico's performance was hailed as a model for other debtor nations.

The society paid a substantial price, however. Unemployment increased, income and investment fell. Although economic recovery began in 1985, the sharp fall in oil prices late in the year forced renewed austerity measures for an already weary population.

Throughout this difficult period, the Mexican Government has taken a responsible approach to its foreign debt problems, continuing to pay about $10 to 12 billion annually in interest. The decline in interest rates is easing this burden somewhat, but not enough to compensate for falling oil prices. During the first quarter of this year, Mexico's oil exports fell by over 50%, a revenue loss of over $2 billion.

To meet this new balance of payments crisis, Mexico is discussing a new standby agreement with the IMF and is seeking $4 billion in additional financing from foreign private banks, multinational development banks, and government export credit agencies. President de la Madrid had already announced new domestic measures, including reduced government spending, steps to increase non-oil exports, and increased prices for government services.

Mexico's economic difficulties are not transitory, in our view. Its remarkably rapid growth during the 1960's, 70's and early 80's was based on an import substitution development model, the discovery of vast amounts of oil in the early 1970's, and heavy foreign borrowing. This led to economic inefficiencies, lack of competitiveness in international markets, overdependence on oil exports for foreign revenue, and large-scale capital flight. It is quite clear that Mexico cannot depend upon any of these for its future economic growth.

In recognition of this, President de la Madrid has announced that Mexico will adopt structural economic reform measures to move towards a more competitive, export-oriented economy which can restore economic growth and provide jobs for its growing work force. These measures include the sale of government owned enterprises, the progressive liberalization of Mexico's trade and investment regime, and steps to stimulate non-oil exports. As part of this effort, Mexican officials announced on April 30 that Mexico would reduce its import duties substantially over the next 30 months in order to improve domestic economic efficiency and promote exports.

It will not be news to anyone in this room, or to anyone familiar with our commitment to a free market economy, that we support all efforts by Mexico and other debtor countries to make serious structural economic reforms. We believe the experience of developing countries today demonstrates that a receptivity to foreign investment and willingness to compete freely in the international market bring economic rewards.

We recognize that Mexico, like every other country, must and in fact will chart its own course on these important matters. We hope it proceeds rapidly with the necessary economic reforms. As it does so, Mexico will also need the continued understanding and support of its foreign creditors. We and other creditors will be in a better position to provide this support as Mexico pursues the structural reforms that experience shows are necessary to create a robust and growing economy.

In this regard, it should be noted that Mexico has initiated negotiations to enter the GATT. Bringing its trading system into conformity with GATT principles will be a major step in moving Mexico's economy to a more efficient, competitive basis, as well as providing substantial mutual trade benefits. The decline in oil prices has underscored Mexico's wisdom in moving to liberalize its trade and financial systems.

On a bilateral level, we are in the process of negotiating a trade framework agreement which we believe will rationalize and increase the trade between our two countries to the benefit of both. These negotiations will complement Mexico's accession to GATT.

The Mexican Government has expressed its intention to encourage foreign investment. In 1985, $1.5 billion in new investment projects were approved by Mexico, but only $500 million was actually invested. There is, obviously, room for more investment from abroad.

Mr. Chairman, efforts to reform Mexico's economy and turn it in a more efficient, competitive direction, are critical to Mexico's long run stability, and to our own interest in a strong, prosperous and stable neighbor. The outcome will affect our trading interests, our banking system, the movement of Mexicans illegally into the US, and even the economic incentives for Mexican farmers to produce illicit-drug crops.

Political Situation.

For more than half a century, Mexico has been governed by the Institutional Revolutionary Party (PRI). Since 1929, the PRI has dominated politics at the federal and state levels. It encompasses the major elements of Mexican society, including labor, farm workers, the middle class and business groups. The PRI has built widespread popular support in Mexico's fundamentally open society through a complex process of consensus, reform, accomodation and organization.

Opposition strength, especially that of the conservative National Action Party (PAN), is growing but has yet to challenge the PRI successfully on the national level. In the July 1985 gubernatorial elections, the PAN mounted particularly strong campaigns in the northern states of Nuevo Leon and Sonora, the results of which were tarnished by allegations of fraud. Effective opposition showings have been thwarted by nation-wide PRI voting strength and organizational power, by maneuvers to divide the opposition, extensive public patronage, and, according to evidence presented by the opposition, by continuing electoral fraud. Charges of fraud, of course, have raised serious questions about the quality of Mexican democracy -- a problem that Mexican leaders are fully aware of.

That political friction exists is not surprising. Mexican society is in the midst of an economically difficult time, and tough economic steps remain to be taken. The society is changing, in response to external stimuli and to meet the aspirations of new generations. Mexico today is an urbanized country with a sizeable and modern industrial sector. Large rural and urban populations remain impoverished , but there has been a notable growth of middle class groups -- which are, ironically enough, in the forefront of pressures for change.

Recent political controversies have stood out sharply against the background of Mexican stability. Still, there are no known terrorist or guerrilla groups in Mexico, nor any signs that point to general acceptance of a need for radical change. Parties on the extreme left are weak and divided; their electoral strength has never exceeded 10% of the national vote and has declined in recent years.

Like the official corruption that accompanies the drug traffic, charges of electoral fraud (indeed the very suspicion of such fraud) have the potential to trigger a widespread loss of confidence in Mexico's government. This, in turn, could severely erode the PRI's ability to govern and lead to a general crisis of governance. Many times in history, outside observers have been proved wrong when they have warned of impending catastrophe in Mexican politics. We hope and trust that the proven resiliency and dynamism of the Mexican political system will enable it to weather today's difficulties as they have done so many times in the past.

Conclusion

Mr. Chairman, the border that the United States shares with Mexico one of the longest and most open borders in the world. That alone gives us a vital interest in Mexico's political stability and social and economic progress.

Today our neighbor is facing difficult times, and its difficulties in a myriad of ways affect our own interests.

For Mexico the challenge is severe. To root out at all levels the cancer of corruption spawned by illegal narcotics, to undertake the structural reforms necessary for the long-term growth required to meet the economic and social needs of its growing population, to accept and adapt to the growing participation within the system of legitimate organized opposition -- these are challenges to Mexico's system as well as for the system.

For the United States, the challenge is no less daunting. If geography makes us neighbors, common sense and self-interest dictate that we respect each other's interests and cooperate to manage problems. The monumental challenges facing Mexico mean that we cannof afford to take sucess for granted. We must work more closely than ever with Mexico to manage the many issues of our relationship.

PREPARED STATEMENT OF DAVID L. WESTRATE

Chairman Helms, Members of the Senate Foreign Relations Subcommittee on Western Hemisphere Affairs: I am pleased to appear before you today to discuss DEA's enforcement programs within and in relationship to Mexico.

Before describing the drug situation in Mexico, I would like to briefly explain DEA's role in the international arena.

The Drug Enforcement Administration is responsible for the investigation and preparation for prosecution of major violators of controlled substances laws operating at interstate and international levels, and the management of a national narcotics intelligence system in cooperation with Federal, State, local and foreign officials. DEA is also responsible for ensuring that legitimately produced pharmaceutical products are not diverted into the illegal drug market. Our criminal investigators, intelligence analysts, and diversion investigators work not only in the United States, but in select international areas, as well.

In addition, DEA shares responsibility for the coordination and cooperation with other Federal, State, and local agencies, and with foreign governments for programs designed to reduce the availability of illicit drugs of abuse on the United States market through nonenforcement methods, such as crop eradication, crop substitution, and training of foreign officials. Under the policy guidance of the Secretary of State and U.S. Ambassadors, DEA shares responsibility for all programs associated with drug law enforcement counterparts in foreign countries.

The Drug Enforcement Administration acts as liaison with the United Nations, Interpol, and other organizations on matters relating to international narcotics control programs. DEA works closely with the Department of State on international liaison, and with the Federal Bureau of Investigation, the U.S. Customs Service, the Coast Guard, and several other Federal agencies on numerous international operations.

As you have requested, I would now like to talk about the Mexican-United States drug law enforcement situation.

OVERVIEW OF MEXICAN DRUG TRAFFICKING

Mexico is becoming increasingly prominent as a source of supply for heroin and marijuana, a transshipment country for cocaine, and the site of clandestine dangerous drug laboratory activity.

HEROIN

Mexico continues to maintain its position as a major source of heroin to the United States, supplying approximately 32 percent of the heroin available in the United States in 1984, and 38 percent in the first nine months of 1985. This can be attributed to several factors such as improved drug cultivation techniques, recent favorable weather conditions for poppy cultivation and the attraction to wages by campesinos who cannot find work in Mexico's failing economy.

Heroin shipments are usually brought across the border by vehicles, or by pedestrians crossing a port-of-entry into the United States. Once in the

United States, heroin is transported via vehicle or commercial carrier to recipient cities. Indicators suggest continued increases in Mexican heroin availability primarily in the Southwest and the West Coast, and in Chicago, Detroit and St. Louis, with no noticeable increases in the east.

The spread of Mexican black tar heroin into many areas of the United States is the most significant change in the trafficking of Mexican sourced heroin. Black tar heroin is smuggled into the United States primarily by illegal aliens and migrant workers and is present in 27 states. Purity levels have been analyzed as high as 93 percent, with 60 to 70 percent purity common. Black tar heroin prices per milligram are as low as 25 cents compared to $2.32 per milligram of other types of heroin in America. There are significant increases in heroin-related hospital emergencies in major cities where black tar heroin has been found.

Several indicators reflect a general trend of increasing Mexican heroin availability in the United States over the past several years. These indicators are decreasing prices and increasing average purity.

The average price was steady at approximately 64 cents per milligram from 1982 through 1984, down from one dollar in 1981. As the price has fallen or remained steady, the purity level has climbed to 54 percent in 1984 as opposed to 20 percent purity in 1981.

There have been no major heroin seizures in Mexico in the past year. In 1985, 9 kilos of heroin were seized in Mexico in contrast to 24 kilos seized in 1984. Scarce law enforcement resources, corruption, and a lack of case development directed toward eventual arrest and seizure were the principal reasons for the decline. Heroin conversion laboratory seizures in Mexico decreased to 2 in 1985, from the 12 found in 1984.

The progress towards limiting the trafficking of Mexican heroin to the United States needs investigative emphasis in the following directions: major narcotic trafficking heads and their high echelon members must be targeted and their organizations dismantled; the essential chemicals necessary for processing must be strictly controlled; laboratories must be destroyed; traffickers' assets must be seized, and their financial base eliminated.

MARIJUANA

DEA estimates that Mexico now accounts for 32 percent of the total amount of marijuana imported into the United States, providing an estimated 3,000 to 3,500 metric tons during 1985.

Border seizures of marijuana have changed from 27 metric tons in 1983 to 87 metric tons in 1984 to 78 metric tons in 1985. Although total seizures decreased about 10 percent from 1984 to 1985, the total number of seizure incidents increased about 17 percent from approximately 1,900 to 2,200 during the same period.

Land vehicles are still the most frequently used method of smuggling marijuana into the United States from Mexico. Los Angeles, San Diego, Dallas, Phoenix, and New Orleans have all reported increased marijuana seizures or trafficking.

The Mexican marijuana trafficking organizations continue to be responsible for all aspects of Mexican marijuana cultivation, production and distribution to American wholesalers.

COCAINE

Currently, there is no known cultivation of cocaine in Mexico. Mexico is a transit country for smugglers who transport by air bulk quantities of cocaine which originated in South America and are bound for distribution in the United States. Virtually all of the cocaine base/hydrochloride arrives in Mexico via general aviation aircraft in multi-hundred kilogram shipments.

The United States border is crossed using private vehicles, commercial vehicles, or small aircraft. Some traffickers smuggling by land are breaking down shipments to quantities of 50 kilos or less in an attempt to avoid detection. Private aircraft flying into the United States frequently carry multi-hundred kilos of cocaine.

Major Colombian cocaine traffickers have been using Mexico as an alternative to the Caribbean to transship large quantities of cocaine into the United States for at least three years. Land vehicles or small aircraft are used to transport the cocaine across the 1,800 mile U.S./Mexican border. Traffickers have been able to make landing and refueling arrangements in many locations in Mexico.

A number of Medellin, Colombia traffickers are operating in Mexico independent of Mexican traffickers. A major trafficker continues to actively coordinate cocaine shipments through Mexico and is believed to own a lab in Brazil capable of producing 500 kilos of cocaine hydrochloride per week.

Some Colombian traffickers have shifted or expanded their cocaine smuggling operations from South Florida to Mexico. The cocaine traffic through Florida continues at a high level.

In many cases, all aspects of the smuggling operation except the accommodation and refueling of the aircraft are accomplished by Colombian nationals.

There are, however, a number of major Mexican cocaine traffickers who, upon delivery of the cocaine in Mexico from the Colombians, provide the final smuggling and distribution link. The Juan Pineda-Trinidad organization is thoroughly Mexican and may be an outgrowth of the Miguel Felix-Gallardo group. The cocaine laboratory and 100 kilos of cocaine seized in Guadalajara in February 1985 were part of Pineda-Trinidad's operations. The Trinidad organization has connections to many significant Mexican drug traffickers.

Current information reflects that Miguel Felix-Gallardo continues to be involved in smuggling multi-hundred kilo quantities of cocaine despite his "fugitive" status in Mexico. He is wanted in Mexico for his involvement in the slaying of DEA Special Agent Enrique Camarena and has been indicted in Phoenix, Arizona on continuing criminal enterprise statutes.

Some Mexican traffickers may be obtaining cocaine directly from Bolivian or Peruvian sources of supply, circumventing the Colombians completely.

After a cocaine shipment has been smuggled into the United States, it is transported by land vehicle to the West Coast, Florida, or the northeast United States. In 1984, there was evidence that cocaine smuggled into the southwest United States was transported back to Miami for redistribution. Recent evidence indicates the shipments are now being forwarded directly to the immediate distribution location. Mexican groups typically forward cocaine to the primary U.S. point of distribution.

It appears that the conversion of cocaine base into cocaine hydrochloride in Mexico is increasing. The lab operators are finding it more difficult to buy essential chemicals in other countries; they are apparently having success in Mexico. Ether, benzene, and acetone are legitimately manufactured in Mexico.

Certain essential chemicals are difficult to control because of their widespread commercial use. The Mexican Government has established programs to monitor sales and shipments of certain essential chemicals. Unless the sale of these and other solvents is closely monitored, the conversion labs will probably increase.

Cocaine seizure statistics in Mexico show a sharp increase. The amount of cocaine seized in Mexico increased from 444 kilos in 1984 to more than 2,500 kilos in 1985. There were also over thirty arrests at international airports in Mexico of cocaine couriers who were in transit to other destinations.

Since 1983, as evidenced by seizure data, the amount of cocaine smuggled across the United States/ Mexico border has increased. While the amount of cocaine seized nearly doubled from 1983 to 1984, more than four times as much cocaine was seized in 1985 as in 1984. The average size seizure along the southwest border increased from less than 1 kilo to more than 3 kilos in 1985.

The greatest number of cocaine seizures at the border have been recorded in California, but the quantities involved have been considerably smaller than in most other border states. Texas, on the other hand, was the site of less than one-third of the cocaine seizures last year, but those seizures amounted to three-fourths of the total quantity seized. In 1985, 137 kilos of cocaine were seized in California as opposed to 852 kilos in Texas.

Cocaine smuggled via Mexico to Texas is generally directed towards landing strips or drop sites in the Lubbock and northern Texas areas; to El Paso and Arizona as a drop-off point for cocaine intended primarily for California; and to the Houston area.

DANGEROUS DRUGS

The dangerous drugs most commonly smuggled from Mexico to the United States are: amphetamines and other stimulants, such as phentermine (Ionamin) and fenthylline (Captagon), methamphetamine, Mandrax and counterfeit Quaalude tablets produced from methaqualone, Mandrax and Quaalude tablets composed of secobarbital, PCP, and the controlled substance analogs MPPP and PEPAP.

The number of reported seizures of clandestinely manufactured dangerous drugs along the Mexico/United States border increased steadily in 1985; however, the quantities involved declined sharply.

This decline can partially be attributed to enforcement activity within Mexico. In July 1985, the Mexican Federal Judicial Police seized a clandestine methamphetamine laboratory near Tijuana which was capable of producing multi-million dosage units monthly. The ultimate wholesale purchasers for the methamphetamine were associated with the Hell's Angels motorcycle gang. In addition, significant arrests were made in Mexico of traffickers involved in the diversion of legitimately manufactured controlled pharmaceuticals.

The diversion of legitimately produced drugs from Mexico to the United States occurs at two distinct levels within the distribution chain. First is the diversion of the bulk powder from international commerce. Powder is obtained from other countries by traffickers and used in the production of counterfeit tablets at clandestine laboratories in Mexico.

The second type of diversion occurs after a legitimate manufacturer has processed bulk powder in dosage unit form for sale at the wholesale and retail level. Due to close cooperation between the Mexican and

United States Governments, actions have been taken to eliminate or decrease problems associated with fenethylline (Captagon); phentermine (Ionamin); and codeine cough syrup (Dimetane).

INVESTIGATIONS

There are a few drug enforcement operations concerning Mexico that I would like to address.

OPERATION VANGUARD

Operation Vanguard is the bilateral effort to assist the Government of Mexico's eradication program for both opium poppy and cannabis through the use of aerial reconnaissance to detect illicit cultivation and subsequently to verify their destruction.

During the first two months of 1986, total flight hours were up, and the verification program was generating encouraging information on the effectiveness of the eradication effort. This verification program gives us confidence that the eradication statistics are reliable.

OPERATION PADRINO

In April 1983, DEA initiated Operation Padrino to investigate and immobilize what was thought to be a major heroin distribution network. It was soon determined that Juan Ramon Matta Ballesteros, a well-documented international cocaine drug trafficker from Honduras, had joined forces with Miguel Angel Felix Gallardo, a well-known heroin trafficker, for the purpose of distributing cocaine into the United States.

Investigation into the organization spread from Mexico to Colombia and Spain. It was learned that the organization had distributed several thousand kilos of cocaine into the United States. Additional developments in June 1984 led to the seizure of over $11.5 million in cash. Cocaine seizures of 760 kilos in Young, Arizona on August 14, 1984 and 169 kilos in Los Angeles on October 10, 1984 were identified as belonging to the organization.

As of November 1985, the overall cocaine seized from the organization totaled more than 5,000 pounds with a wholesale value of over $121 million. Property asset seizures total over $5 million. U.S. currency cash seizures totaled over $56 million.

Nevertheless, the organization continues to operate. The investigation remains multinational and interdivisional with at least 4 foreign countries involved along with 8 DEA Field Divisions, EPIC, and DEA Headquarters working together to immobilize the upper echelon of this organization.

CAMARENA INVESTIGATION

DEA Special Agent Enrique Camarena was abducted and murdered on February 7, 1985 in Mexico. It is strongly believed that the abduction and murder were carried out by targets of Operation Padrino, with the assistance of former and present Mexican police officials to retaliate against DEA's effectiveness in that operation.

The investigation into S/A Camarena's death is still ongoing in Mexico and is the subject of continued high-level meetings. DEA and the FBI are conducting an investigation in the United States looking towards U.S. indictments of those involved for violation of U.S. law.

MEXICAN-AMERICAN MEETINGS

Subsequent to the abduction and murder of Special Agent Camarena and the poor performance of Operation Vanguard, the Governments of Mexico and the United States held a series of meetings to reaffirm their allegiance and move forward on joint narcotics programs. In the past year, the Attorneys General of both countries met twice and President Reagan and President de la Madrid have discussed narcotics matters in their meetings.

The Mexican-American Law Enforcement Summit was last held in April 1986 in Cancun. Initiatives on eradication, trafficking, fugitives, mutual legal assistance and other matters proposed at the summit were agreed to by the Attorneys General. This process will continue and specific time-frames for progress have been established. We are hopeful that progress will be made as a result of this framework.

CONCLUSION

DEA believes that the drug law enforcement relationship between the United States and Mexico is on firmer ground as a result of our efforts. The Attorneys General and Presidents of both countries have reaffirmed their goals in the drug supression effort.

The Drug Enforcement Administration hopes that in the coming months and years, bilateral agreements with Mexico will prove to be effective in upgrading drug law enforcement in Mexico and on the Mexican-United States border and turn around the increased flow of heroin, marijuana, and cocaine.

Mr. Chairman, I appreciate this Subcommittee's interest in Mexican-United States relations regarding drug law enforcement. I will be pleased to answer any questions you may have.

Thank you.

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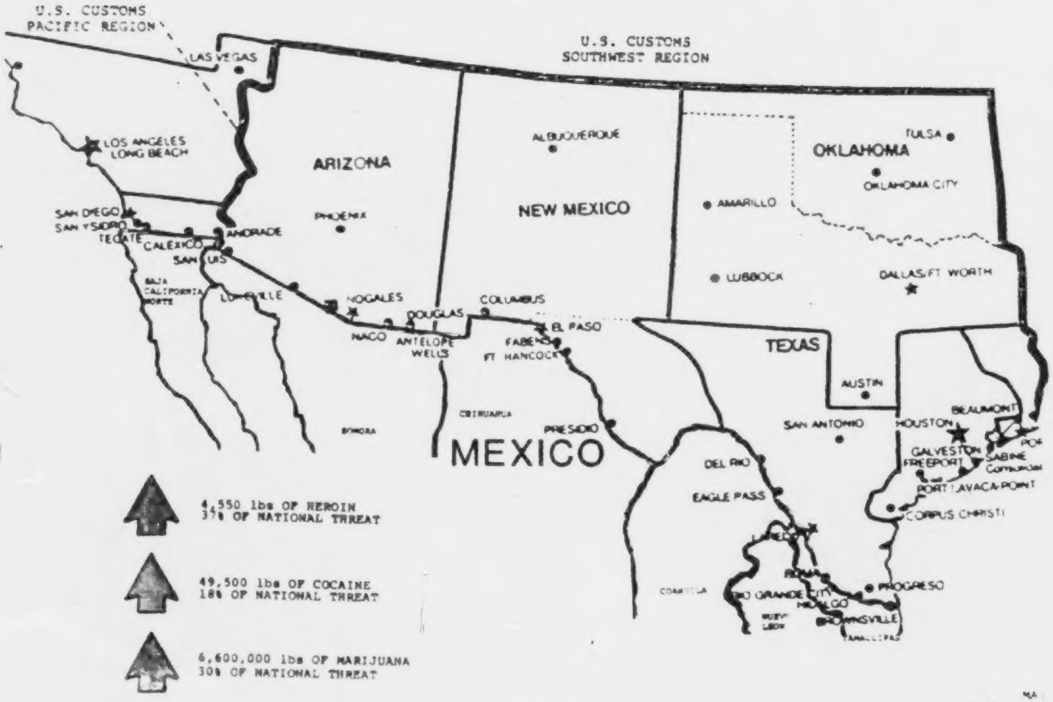
1986 DRUG SMUGGLING THREAT
FROM MEXICO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DEL RIO
EAGLE PASS
LAREDO
COAHUILA
NUEVO LEON
ROMA
RIO GRANDE CITY
HIDALGO
PROGRESO
BROWNSVILLE
TAMAULIPAS
4,550 lbs OF HEROIN
37% OF NATIONAL THREAT
49,500 lbs OF COCAINE
18% OF NATIONAL THREAT
6,600,000 lbs OF MARIJUANA
30% OF NATIONAL THREAT

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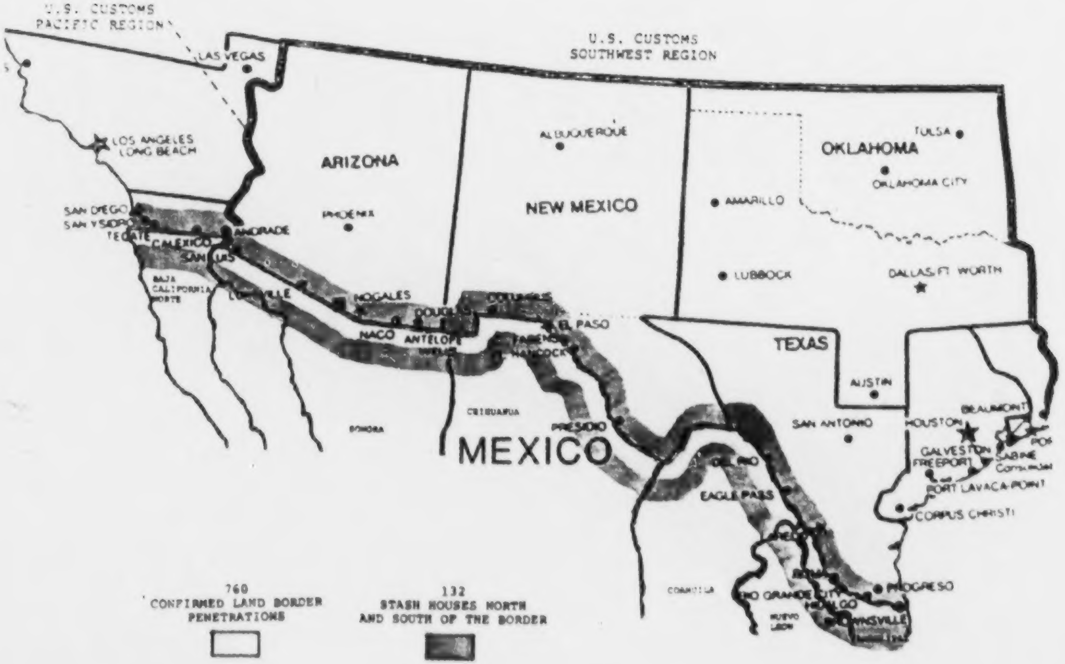
LAND BORDER DRUG SMUGGLING SITUATION
APRIL 1985 - APRIL 1986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MEXICO

760
CONFIRMED LAND BORDER
PENETRATIONS
☐

132
STASH HOUSES NORTH
AND SOUTH OF THE BORDER
▨

SOURCE: SOUTHWEST REGIONAL
INTELLIGENCE BRANCH

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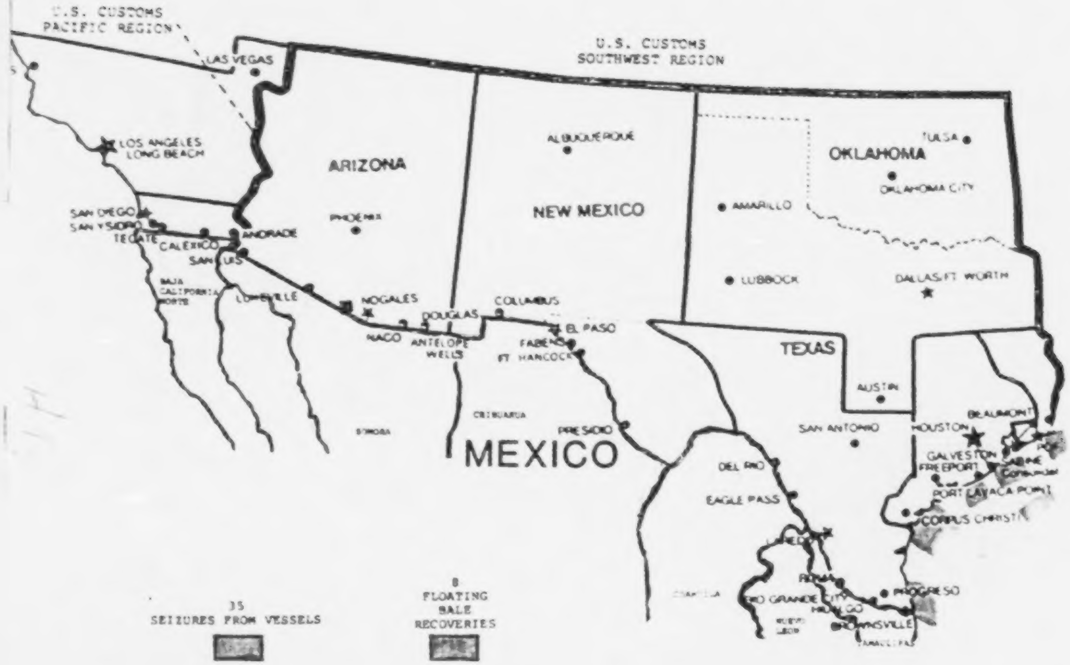
SEA DRUG SMUGGLING SITUATION
APRIL 1985 - APRIL 1986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NUEVO LEON
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35
SEIZURES FROM VESSELS
8
FLOATING BALE RECOVERIES

SOURCE: SOUTHWEST REGIONAL
INTELLIGENCE BRANCH

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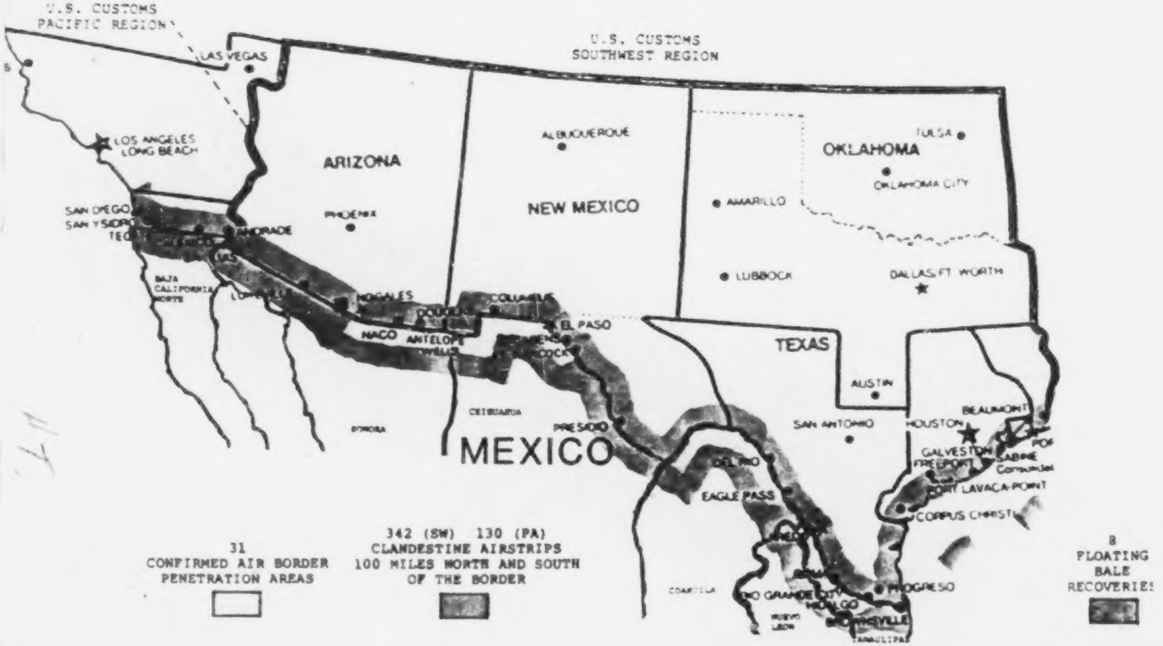
AIR SMUGGLING SITUATION
APRIL 1985 - APRIL 1986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COAHUILA
NUEVO LEON
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CONFIRMED AIR BORDER
PENETRATION AREAS
342 (SW) 130 (PA)
CLANDESTINE AIRSTRIPS
100 MILES NORTH AND SOUTH
OF THE BORDER
8
FLOATING
BALE
RECOVERIES

H.T.

SOURCE: Southwest Regional
Intelligence Branch

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MAY 1986
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● COMMISSIONER
D-COMMISSIONER
● A/C-INTER AFFAIRS
● A/C-ENFORCEMENT
A/C-I & C
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INVESTIGATIONS
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HEADQUARTERS COMMCENTER PLEASE PASS TO COMMISSIONER?
ASST. COMMISSIONER? INTERNATIONAL AFFAIRS? ENFORCEMENT?
DIRECTOR, SPECIAL INV. DIVISION

E.O.12365:DECLASS//OADY
TAGS: OGEN
SUBJECT: LETTER FROM GARCIA LIZAMA TO COMMISSIONER RE
NEWSPAPER ACCOUNTS ON NARCOTICS TRAFFIC

1. THE FOLLOWING IS AN UNOFFICIAL TRANSLATION OF A LETTER
RECEIVED BY CUSTOMS ATTACHE MEXICO ADDRESSED TO
COMMISSIONER VON RAAB, WHICH IS BEING FORWARDED BY POUCH.

2. MR. WILLIAM VON RAAB
- UNITED STATES CUSTOMS
- COMMISSIONER

- IN YESTERDAYS AND TODAYS EDITIONS OF MEXICAN NEWS-
- PAPERS A STORY DATED 21, APRIL AND TRANSMITTED BY
- UPI APPEARED, WHICH STATES THAT YOU HAVE STATED THAT
- A DELICATE NARCOTIC PROBLEM EXISTS ON THE UNITED
-- STATES-MEXICAN BORDER, BY VIRTUE OF THE FACT THAT
- COLOMBIAN NATIONALITY CRIMINALS HAVE ESTABLISHED
- THEIR OPERATIONS THERE ALSO STATING THAT YOU HAVE
- SAID THAT SOME MEXICAN POLICE PERMIT NARCOTICS
- TRAFFICKING IN SOME MANNER AND UNDER SOME CIRCUM-
- STANCES. TAKING INTO ACCOUNT THE PROVEN INTEREST THAT
- OUR COUNTRY HAS IN COMBATTING NARCOTICS TRAFFICKING,
- I ASK, IN THE EVENT THAT SUCH DECLARATIONS ARE INDEED
-- YOURS, FOR FACTS RELATED TO THE ILLEGAL ACTIVITIES
- TO WHICH YOU REFER, SO THAT WE MIGHT PROCEED LEGALLY
- AGAINST VIOLATORS IN MEXICAN TERRITORY. IN EFFECT,
- IT WOULD BE OF GREAT USE FOR US TO KNOW THE FACTS,
- WHICH IN THIS CASE, SUBSTANTIATE THE INFORMATION RE-
- LEASED, AND IF IN REALITY THERE IS INFORMATION FROM
- A GOVERNMENTAL SOURCE SUCH AS THE CUSTOMS SERVICE
- AALLEGES, WE WILL TAKE THE APPROPRIATE ACTIONS IN
- COORDINATION WITH THE MEXICAN ATTORNEY GENERALS
- OFFICE AND IF NECESSARY WITH AUTHORITIES IN YOUR
- COUNTRY.

- I TAKE THIS OPPORTUNITY TO ASSURE YOU OF MY SINCERE
- CONSIDERATION.

31259

RECEIVED 4/25/86

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-   SIGNED:  LIC. VICTOR GARCIA-LIZAMA
-   -           DIRECTOR GENERAL

-   CC::  DR. SERGIO GARCIA RAMIREZ, ATTORNEY GENERAL

3.  DECLASSIFY UPON RECEIPT.

BUSBY
BT
#8935




NNNN
Time: 05:08 04/25/86 GMT
Connect Time :     227 seconds
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C 149307

THE COMMISSIONER OF CUSTOMS

WASHINGTON, D.C.

INT-1-E:I:N RKJ

May 9, 1986

Dear Lic. Garcia-Lizama:

Thank you for your letter of April 22, 1986, in which you asked for the basis of my press comments about the narcotics and corruption problems and the presence of Colombian nationals at the border. If you recall we have discussed these problems at length often in the past.

I would like to reiterate my concern about the problems the Customs Service is facing at the border. These include not only the aforementioned narcotics and corruption problems, but also the increased incidence of violence against both law enforcement personnel and private citizens of the United States and Mexico. You have asked me to provide you with specific examples of problems at our borders and I submit to you the following:

- o In mid-October, U.S. Customs in San Ysidro, California, reported that several Mexican officials successfully smuggled weapons purchased in the United States into Mexico, then threatened the U.S. Customs Special Agent investigating the case with arrest if he were ever found in Mexico.

- o A report from Yuma, Arizona, indicated that Mexican Federal Judicial Police attempted to arrest an ex-Municipal policeman at the San Luis Rio Colorado Police Headquarters and became involved in a shootout with the Municipal police using automatic weapons. The suspect was being arrested for narcotics trafficking.

- o As you know, there was an incident in Naco, Arizona, where it was discovered that a Mexican officer was transporting 150 pounds of marijuana in the trunk of his car. He assaulted our officer and fled back into Mexico. We kept the car, marijuana, and his uniform jacket. To date, there has been no action, of which I am aware, taken against the officer despite my request. However, I would point out that, at the request of Mexican Customs, we returned his jacket. What has happened to this individual?

- A report out of Brownsville, Texas, indicated that a Mexican Federal Judicial Police officer was arrested along with two other Mexican nationals on one felony violation involving the importation and exportation of unreported currency in the amount of $33,385. Three defendants were sentenced to 4 years probation/45 days to be served and fined $21,000. All defendants were deported to Mexico.

- Among several incidents concerning Colombians, I submit to you the following:

  - On 17 January, the MFJP arrested a Colombian drug trafficker in Reynosa with 1.1 kilogram of cocaine. The Colombian had previously smuggled 100 kilograms of cocaine into the United States across the border to Pharr, Texas. The case had been under investigation by the MFJP for several months and reportedly established that the cocaine had crossed into Mexico on muleback across Mexico's southern border.

Because corruption is so pervasive, I could not provide sensitive confidential information that might find its way into the hands of corrupt officials. The only way I would consider doing so would be if you could provide me with a list of non-corrupt officials among whom this information would be very closely held.

The serious situation along the border highlights once again the importance of joint crewing of the P-3. We have repeatedly made overtures on this issue, even to the point of permitting some Mexican Customs officials to ride in the P-3's as part of an enforcement exercise. Yet there is no positive reaction from Mexican enforcement. If Mexico is serious about wanting to do something about drugs, this is an ideal means for demonstrating such a commitment.

I look forward to your response.

Yours faithfully,

William v Raab.

Lic. Victor Garcia-Lizama
Director General de Aduanas
Secretaria de Hacienda y Credito Publico
Mexico 1, D.F.

PREPARED STATEMENT OF H. EUGENE DOUGLAS

Mr. Chairman and Members of the Committee,

I am pleased to appear before you this morning to discuss a subject which is both very close to me personally and of paramount importance to the continued security and well being of the United States. I refer to Mexico.

Growing up in Texas in the 1940´s, I was only dimly aware that had I been born a century earlier, I would have been a citizen of Mexico. Perhaps because my hometown elementary school had a sound program of introducing its students to the Spanish language, I formed a special attachment to Mexico: a feeling which over the years grew into an understanding and affection for the people of Mexico and the countryside itself. I have visited there countless times as a traveller, wandering the length and breadth of the place. I have lived in Mexico as a businessman and worked with officials of the Mexican Government as an Ambassador at Large in the Administration of President Reagan.

I have no illusions about Mexico: its current problems are as staggering as its prospects. So much of Mexico´s history is a record of lost opportunity; an inablility to mobilize and direct the human and material riches of the country for the common good

Some time ago, I wrote a piece for publication which I titled "The United States and Mexico: Conflict and Comity". In that article, I observed that "asymmetry" and "dependency"are two words that recur in the academic literature on U.S.- Mexican relations. Mexicans are much more absorbed with their history than Americans are with theirs. Through it all runs a thread of frustration, even of humiliation, especially at the hands of the Colossus of the North. Most Mexicans are aware that a large part of their country was lost in the 19th century to the benefit of the United States although one encounters little resentment of the fact outside leftist circles or among some politicians or intellectuals.

Educated Mexicans often cry out for understanding of their special history and society. What they regard as indifference, compounded by a vast ignorance on the part of most Americans, serves as constant irritation, a continual frustration summed up in the word "dependency".

Ignorance of Mexican history and insensitivity to Mexican ideals and political culture are as much hallmarks of past U.S. attitudes toward affairs in Mexico, as is the frequent arrogance, double standards, and wild over-reaction of Mexican political leadership to decisions, statements and press reports originating in the United States.

Last month, in hearings before this committee, senior Administration officials sparked a lively domestic political and diplomatic debate by doing something quite out of the ordinary in U.S.- Mexican relations: they spoke frankly in public about conditions in Mexico which have become too serious to be handled in the old way.

Mexico City was stung by the source and the nature of the comments. This was not surprising, particularly in light of the severe pressures on the current Mexican political leadership. What struck me as most significant in the character of the Mexican reaction was a restatement of their assertion that Mexico is, and has a right to be, exempt from the kind of foreign commentary or criticism which marks the relationships between other democratic states in th West. Think for a moment about what has been said within the past year about Papandreou in Greece (attitudes toward counter-terrorism and NATO), Mitterand of France (overflight rights for the Libya raid), or the recent case of the election of Kurt Waldheim as President of Austria. No one is picking on Mexico. There are problems, and they need to be discussed.

The test of the U.S.- Mexican relationship is whether we in the United States can form a view of our relations with Mexico that serves our national interests and security, while reflecting at the same time an understanding of the realities and legitimate interests of Mexican society. It does not serve our fundamental interests to become involved in Mexican domestic politics--or to act as some kind of mentor for new political groupings.

At the same time, wholly indigenous forces are at work within Mexico testing the strength, ethos, political vision and stability of the dominant political institution in Mexico, the PRI. Inevitably U.S. interests will influence those forces.

In that regard, there really should be no need to restate the obvious: that the United States has a genuine and fundamental interest in Mexico´s continued development as a free and prosperous economy with a democratically elected government which promotes the blessings of freedom, security and social justice to its citizens.

Mexico certainly deserves our help in building a better future for its people. Prosperity is mutually reinforcing. An affluent Mexico can contribute to U.S. prosperity, but a poor Mexico will have little to offer to America´s growth. The country´s long range stability depends heavily on its economic development, the ability to provide employment for its growing population. Both the solution of the problem of illegal immigration from Mexico to the United States and the prevention of the problem´s aggravation depend on Mexico´s successful economic development.

While in Washington during the years 1981-1985, I became convinced that in the matter of most U.S.- Mexico cross border initiatives, Washington´s role should be that of supporting actor rather than lead actor. Not only does one find greater knowledge, skill and sensitivity on Mexican affairs in Texas, Arizona or California (rather than Washington,DC), but lead action by the States avoids the negative perception of "dictates from Washington" and sets a good example for the decentralization of authority out of Mexico City.

Moreover, the Border States are in a better position to reach out to the critically important younger Mexican leadership in business, politics, labor and the professions. In light of the flood of illegal immigrants and the multitude of formal and informal contacts between the U.S. and Mexico, one can ask why such an effort is necessary? The answer is that Mexico is changing, and changing very fast. A rapidly expanding population will place unbelievable strains on the system's ability to create jobs, provide essential social services, and maintain the official and logistic infrastructure of a major state.

Mexico's schools and technical institutes physically cannot provide the needed training for all the personnel who are needed for the next ten years. In this regard, the United States has a great opportunity to demonstrate the value of a good neighbor and help train the next generation of Mexican leadership. For a sum of money almost insignificant on the American scale, we can build a firm network of personal relationships and trust which will go a long way toward reducing future bilateral tensions. But more importantly, the common effort will raise up a strong force for a democratic, self confident and progressive Mexico which believes in itself and trusts the basic good will of its neighbor.

And of course, there is a need for continuing the education of the American public about the crucial importance of Mexico to our own economic and geopolitical security. In this regard, I am pleased that some of the most innovative programs in the United States are taking place in my own state of Texas. The University of Texas at Austin is strengthening its already substantial programs in Mexican studies. A Texas businessman-- distinguished by decades of service to his country, his state and his university--has established four chairs at the University of Texas which will bear his name: The C.B. Smith Chairs in U.S.-Mexico Relations.

The University of Texas has honored me with an opportunity to make a contribution by appointing me an Adjunct Professor and C.B. Smith Fellow in U.S.-Mexican Relations for the 1986-1987 term. One of my objectives during this perod is to pull together numerous existing private sector programs around the country so that their combined influence on policy--both in the United States and in Mexico--will exceed their current influence as separate efforts.

One particularly worthwhile private effort is the Amundsen Institute, founded by Texas businessman and philanthropist Robert Amundsen of Dallas. The Amundsen Institute concentrates on bringing the younger generation of Mexican leaders together with their American counterparts.

Such private efforts have great potential to help form that prosperous and democratic Mexico which is a common goal on both sides of our long common border.

Surely these efforts deserve the encouragement of this Committee.

-*-*-*-*-*-*-*-*-*-*-*-*-*--*-*-*-*--*-*-*

Mr. H. Eugene Douglas
President & Chief Executive Officer
Alpha Environmental, Inc.
200 West Illinois Avenue
Midland, Texas 79701

Telephone (915) 683-5384

PREPARED STATEMENT OF WILLIAM D. ROGERS

If the United States has one truly special relationship with another country in all the world, that country is Mexico. No other nation's internal developments impact so directly on our own national purposes as Mexico's. With no other do we have such a range of concerns across the full spectrum from national security to drugs, migration, border industries, energy, trade and finance.

It is a remarkable relationship. Standard diplomatic textbooks do not treat it. Nowhere else is there a border dividing -- but not separating -- a developing people from an industrialized country. No other frontier in the world has such stark contrasts of history, culture, language and economics. And no other, where the common relationship is so asymmetrical. It is said that the United States represents three-quarters of Mexico's foreign policy. But for the United States, Mexico has usually been a far less pressing concern, one to which we turn as an afterthought or in times of crisis. Carlos Fuentes has called it "the next frontier of American consciousness." "The most difficult frontier of all, the strangest, because it [is] the closest and therefore the one most often forgotten, most often ignored, and most feared when it is stirred from its long lethargy." We ignore it, perhaps precisely because it has so deeply penetrated our own national being. And so, he suggests when we suddenly rediscover Mexico, think we need to save it, to fashion it in our image, metaphorically to occupy it once again, to assimilate it to our own national experience, to make it something it is not.

This seems to be another such moment of panicky rediscovery. It has suddenly become fashionable to pronounce Mexico a menace to our own national interests. The chorus proclaims:

- Where once Mexico was the model adjusting debtor, the new Mexico bashers now see economic disaster in the recent fall of oil prices, the burden of debt service and increases in inflation and unemployment.
- The very nation which for decades had been the toast of the Hemisphere for its stability, its avoidance of coups and its distaste for military dictatorships is now said to be threatened by political dissolution.
- It is accused of complicity in the drug trade, and its officials of rampant corruption.

The Executive Branch response to this has been anything but coherent. Indeed, one would be hard put to think of a moment in the recent history of U.S.-Latin relations when the agencies of government have been so publicly at each others' throats, so confusing in their policy statements, or so obviously without senior leadership and direction. One day the State Department seems to condone the attacks of the U.S. Customs Service head, Mr. von Raab; the next, the Attorney General publicly communicates his confidence to the highest levels of the Mexican Government. Confusion and conflict between agencies are awkward enough in the conduct of any diplomatic relationship. It is intolerable in the instance of Mexico. Too much is at issue. The relationship is too sensitive.

The result is to convince Mexicans, not to mention our friends and allies in the Hemisphere and around the world, at least that the United States cannot sort out its priorities. At worst, Mexicans wonder whether this good-cop-bad-cop posture hides some devious strategy. They cannot believe that a great power can in fact be so confused about policy. There must, say Mexicans, be some explicit target of all this activity in Washington -- perhaps even the political structure of Mexico itself.

Strong rhetoric is not the way to manage this relationship. Denunciation is counterproductive. Quiet diplomacy, a sense of our long and troubled history together, a sensitivity to the very special psychology of our coexistence, these are of the essence. The efforts with Mexico which Chairman Volcker and the Federal Reserve Board have managed in recent days were an extremely positive development. They may have gone some length to repair what was moving toward disaster. They are certainly a measure of the advantage of bilateral cooperation over unilateral confrontation.

There is, in addition, an element of self-righteousness to the recent attacks on Mexico. The United States is the most insatiable market for drugs in all of recorded history; it comes close to hypocrisy for this nation to condemn Mexico, whose resources for drug policing are a fraction of ours, when we are unable to manage the traffic and consumption in our own nation. The United States is also the world's most insatiable consumer of foreign capital; American banks have far more on deposit from Mexico than they have loaned to that country. It is scarcely just for us to denounce Mexico as exclusively responsible for capital flight, when we are sucking up the capital of foreign nations so effectively into our own financial markets.

A fair reading of the situation suggests that the apocalyptic readings of Mexico are vastly overdrawn. We have indeed reacted with fear to our new rediscovery of Mexico. Yet in fact Mexico is responding positively in three broad areas of importance to the two countries.

A. Trade and Debt

Mexico is our third largest trading partner, after only Canada and Japan. It is one of the strongest of the advanced developing countries; its industrial base is larger than Korea's or Hong Kong's. Mexico's decision to accede to the GATT and its 1985 bilateral subsidies agreement with the United States, phasing out a wide range of export subsidies, are evidence of a commitment to fashioning an outward oriented economy. And Mexico is addressing its debt not walking away from it.

B. Border Issues

On migration and drug traffic, Mexico, within the limits of its means, is doing its part, as Attorney General Meese seems to have suggested.

C. National Security

Some in this country have even questioned Mexico's alliance with the West. Mexico is firmly in the Western Camp, in both economic and political terms. Its central objectives are to nurture its independence, to strengthen its own political system and to support the common concerns of developing nations. Mexico and the United States operate from different positions of relative power. Their perspectives tend to differ. Their ultimate goals are not at all at odds.

* * *

A nation can choose its friends, but not its neighbors. We and Mexico are fated to live together. In sickness and in health. For richer or for poorer. No death can do us part. We had best learn how to exist side-by-side with civility and understanding. For what injures Mexico does damage to our own vital national interests as well.

PREPARED STATEMENT OF SOL W. SANDERS*

For more than half a century, the United States has had the luxury of being able to treat Mexico with, to borrow a phrase from Senator Moynihan on another problem, benign neglect.

During that period, Mexico has been a neighbor we could forget. It made remarkable progress. It was an exotic playground for our tourists. It supplied us with cheap goods and labor. And in recent years it was our third or fourth largest market.

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*Sol W. Sanders, a freelance journalist is the author of MEXICO: Chaos on our doorstep, A Madison Book, to be distributed by Scribner's-Macmillan beginning in July. Mr. Sanders has a long career as foreign correspondent for newspapers and magazines including US NEWS & WORLD REPORT and until recently wrote a political economic column, International Outlook, for BUSINESS WEEK. His writings include A SENSE OF ASIA, a political memoire, and HONDA, a biography of the Japanese industrialist, and a recent monograph for the Twentieth Century Fund on the problem of Costa Rica's external debt as an example of the debt crisis throughout Latin American. Mr. Sanders worked and traveled in Mexico in the 1950s and returned to that interest in 1975. His current book is the result of four years of historical analysis and research and travel in Mexico.

We have had a relationship more of indifference than of interest and accommodation. That will no longer be possible.

Mexico is now in the greatest crisis in her history--economic, social, and political. Mexico in the near future must have a high-priority claim on the attention of our policymakers, more informed attention from our media, and more serious study from our academic community.

Mexico is in crisis because a regime designed in 1923 for a rural, isolated, feudal Mexico of 15 million people has fossilized. While the nation's population exploded and rushed into the modern world of instant communications, the political system atrophied. Mexico's present 80 millions soon to be 100 millions--largely urbanized with a growing lower middle class--no longer can be governed by an oligarchy masquerading as a revolutionary leftist regime. A president-emperor with more relative power than any executive in the modern world--with perhaps the exception of North Korea's Kim Il Sung--is an anachronism in 1986. Cities of over a million, some a thousand miles from Mexico City, can no longer be effectively governed by a highly centralized regime designed for a Mexico of the burro and the hacienda.

So far, Mexico's leadership shows little ability--and less willingness--to seek new solutions even in the face of a collapsing economy and growing political dissidence.

And that, unfortunately, must be our concern. With a 2,000-mile demilitarized border, what happens in Mexico is our problem. Mexico's difficulties--as earlier witnesses before this committee have laid out in detail--impact on our domestic scene in a way no other country in the world affects us. Very quickly Mexico's crime, her drug scene, flagrant corruption, growing political instability, exploding population and mushrooming unemployment, become a part of our overall preoccupations as well as Mexico's.

That, of course, is true in reverse. To use that old cliche, but so appropriate here, when we take a deep breath, Mexico catches cold. And one cannot exaggerate, whatever the rhetoric to the contrary below the border, the impact of what is said here. There is no opinion expressed, no intellectual fad publicized, no statement of policy made in this capital which does not have its immediate echo in Mexico City.

Unfortunately, the history of American intervention in Mexico has left its scars--as well abundant evidence of failure. But, increasingly, our policy-makers will have no choice but to take a more activist line toward Mexico and its problems.

What I am urging is that time, attention, patience, and deep consideration be given to those initiatives.

Willy-nilly since 1982, we have already adopted a long-term strategy toward Mexico. We have moved to do whatever seems necessary to bolster the present regime as it grapples with the greatest economic crisis in its history.

I would argue, however, that it is a mistake to see Mexico's current financial problems in an econometric vacuum. The root of Mexico's economic crisis, its growing inability to pay the $100 billion external debt, its austerity policies which have brought on stagnation in the face of its need to produce a million new jobs a year, and its roaring inflation, are ultimately the product of a political crisis.

When former President Jose Lopez Portillo chose to nationalize the Mexican banks in 1982 along with dollar deposits of Mexican residents, he brought on a crisis of confidence that still dogs the regime. President Miguel de la Madrid's administration has refused to reverse the bank nationalization--and a host of other economic policy misfortunes inherited from his predecessors. And that is despite the fact that he, his finance minister, and his governor of the central bank all were opponents of the nationalization when it took place.

Most specialists believe that Mexico lost as much as $6.5 billion last year in capital flight. Unless confidence is reestablished in the future of the country, in the future of its economy, in a future with rational economic policies based on a return to a strong private sector and market processes, that capital flight will continue. Such programs as the presently contemplated $6 billion in "new money" from the bank creditors, the IMF, and the World Bank, are only band-aid measures. They do not treat the fundamental problem of confidence of the Mexican wage earner, the entrepeneur, the investor, who [illegible] historically have given Mexico one of the highest savings rates in the world.

Nor will it be possible for long to ask continue sacrifices of Mexicans, to live with stringent budget economies and cutbacks in imports, with a deteriorating standard of living, while it continues to pay its external debt--unless the regime undertakes a radical transformation of its political approaches to its problems. And that, I believe--persuading the Mexicans to move quickly toward dramatic reforms--has to be the thrust of our policies.

PREPARED STATEMENT OF CATHRYN L. THORUP

Mr. Chairman and distinguished members of this subcommittee, I appreciate the opportunity to appear before you today to testify on U.S. relations with Mexico.

The Setting

Despite the genuine personal interest of President Reagan in a strong, positive relationship with Mexico and despite the presence in Mexico of the most pro-U.S., pro-private sector president in fifteen years, U.S.-Mexican relations have followed an erratic but, ultimately, downward spiral since the rupture of the Mexican economy in August 1982. Today the United States and Mexico face tension in every major area of the bilateral relationship.

The results of Mexico's rediscovery by U.S. policymakers and the American public at large belie the notion that it is necessarily beneficial to be at the top of the U.S. agenda. It depends why a country's relative significance has risen.

Mexico's current high profile in the U.S. derives from its disagreements with the Reagan administration: over the pace and content of economic liberalization, Mexico's policies toward Central America, the depth and speed of political opening, migration, drug trafficking, and corruption. Particularly since late 1984, U.S. policymakers' attitudes toward Mexico have been characterized by frustration and cynicism, and Mexico's popular image and credibility in the United States have suffered a steady decline.

There is a tendency in the United States to view our problems with Mexico as residing at the Mexican end of the bilateral relationship. The "get-tough" mood prevailing in policy circles in Washington and financial circles in New York has directly hindered the pursuit of the administration's stated goals of economic and political reform in Mexico. In fact, our current policies are jeopardizing the very political and economic stability of Mexico, as the U.S. comes to constitute yet another pressure on a government that is facing growing and competing demands with ever scarcer economic and political capital.

Our overall foreign policy toward Mexico is in disarray. We are bouncing back and forth between brinkmanship and damage control. In my testimony today I would like to examine the dangers inherent in our current approach toward Mexico.

Economic and Political Conditions in Mexico

These hearings come at an especially difficult time for Mexico, a nation in its fifth year of economic austerity and on the eve of potentially difficult state and local elections. Mexico's economy is in dire straits with its now infamous $97 billion in foreign debt and the recent precipitous 50% drop in oil prices. The economic roller coaster ride from oil boom to bust and last September's devastating earthquakes have taken a psychological toll on the Mexican people.

The political system of Mexico has remained stable largely because it has been able to provide goods and services, thanks to a long history of average yearly growth rates of 6%. But, today real wages are lower than they were in 1965, the standard of living has dropped 30-40% since 1982, and the forecasts are for up to 100% inflation and negative growth of 3-5% for 1986. A political system that does not deliver cannot survive indefinitely, and without growth the Mexican government cannot deliver.

Mexico has until now been a leader of debtor nations both in terms of the magnitude of the problems and in terms of the search for constructive solutions. The Mexican government has carried out many of the reforms required by the international financial community, but a clear appreciation for the difficulty of these efforts has been lacking in the U.S. Compromise by Mexico seems to be interpreted as weakness in this country, and the reforms taken are never "enough." The rewards for adjustment have failed to materialize and, politically, Mexico cannot long afford to buy each U.S. dollar at the price of one reform. Eventually even "technocrats" must pay attention to demands for social equity.

The U.S. economy suffers when Mexican growth declines: U.S. jobs are lost, U.S. exporters lose, U.S. firms with investments in Mexico suffer, and U.S. commercial banks face a greater chance of a suspension of interest payments. There is a common interest in growth with equity in Mexico. For some time, it has been clear that the U.S. government needs to play a key role as interlocutor between the Mexican government, the international financial institutions and the commercial banks in order to resolve the debt crisis. It now appears the U.S. government is doing just that and it is rumored that some relief is in sight. The peso's 30% plummet earlier this month had led some to expect that the de la Madrid administration was close to declaring some sort of negotiated moratorium. The resultant climate of crisis seems to at last be enticing various parties to the negotiating table to discuss Mexico's debt - the key issue overshadowing the bilateral relationship.

Mexico has not been looking for sympathy, it has been looking for money. Without it, the Mexican government can neither implement difficult reforms nor fuel growth. The U.S. has partially financed its own trade and fiscal deficit as a net recipient of capital flows from Mexico. The direction of these flows will eventually have to be reversed. The U.S. public and private sectors, as well as those of other industrial countries, need to provide the financing, equity investment and moral support for Mexico's economic reforms that will ease the way for Mexico's economic recovery. That recovery will then bring fresh investment by both foreign and domestic investors. A return to growth will go far to ameliorate a whole series of problems that confront our two nations and which are married to economic decline in Mexico: debt, immigration, narcotics, corruption, and protectionism.

Additionally, there is a direct link between economic development in Mexico and political opening. Economic crisis creates pressures for political reform, but implementation of those reforms requires an environment of confidence and growth. There is significant domestic pressure for political pluralism in Mexico and encouraging signs of progress towards an internal reallocation of power in the new-found strength of the Mexican congress, the growing articulation of Mexican civil society, and the now more open public debate.

The Mexican political system will never mirror our own. Neighborhood allows each of us to test our own uniqueness. The Mexican political system will close ranks in the face of external prescriptions and pressure for change and authoritarianism, not democracy, will be the more likely result. The U.S. role in the process of political opening in Mexico should be an indirect one of removing obstacles, of creating the economic space for political development. The United States will damn the process of political reform if it tries directly to influence its speed and its content.

U.S. Policymaking

U.S. policymaking toward Mexico is fragmented. As domestic and foreign policy issues become increasingly interwoven and as the stakes increase, more actors - both public and private - demand a say in policy formulation. As each agency pursues its own particular interests with regard to Mexico, certain domestic constituent interests may be well-served, but general U.S. interests are not. First, this fragmentation enables relatively minor actors within a given administration to draw the entire bureaucracy behind them - particularly at a moment when there is little enthusiasm for Mexico in Washington or New York. As a result, the overall relationship becomes hostage to parochial concerns. Second, in the absence of a general coordination of U.S. policy toward Mexico, there is no entity to evaluate, assign priorties to and regulate the flow of demands we are placing on the Mexican system. The cumulative impact on Mexico of these ad hoc pressures is tremendous and potentially damaging to our long-term interests.

Our policies have directly reduced President de la Madrid's room for maneuver in Mexico. Tough U.S. policies toward Mexico have so polarized both the bilateral and national debates that the position of those Mexicans who support economic liberalization and political reform has been undercut. Anti-U.S. sentiment in Mexico is festering and the rewards for "good behavior" pale beside the domestic political costs of compliance with U.S. pressure. Pressure is building there for de la Madrid to take a harder line in his negotiations with the United States. If it is not our responsibility to make life easy for Mexico's rulers, neither is it in our interest to back them into a corner.

Today almost any action by either country is an irritant to the other. Those who say that this is in the very nature of U.S.-Mexican relations sell our two nations short. We are capable of better. There are indications, however, that a more enlightened policy toward Mexico is on the horizon. Assistant Secretary of Treasury Mulford last week in these hearings drew attention to the steps that Mexico has taken to adjust its economy, expressed his confidence in a return to sustainable growth in Mexico, and noted, "When it comes to Mexico there is a tendency to be quick with criticism and cautious with praise." And on June 11, President Reagan stated that "Mexico is our next door neighbor; our fortunes are linked on many fronts, so we want to be as much help as we can."

Considerable momentum has been generated once again for the establishment of formal bureaucratic mechanisms to coordinate U.S. policy toward Mexico. Talk of a "special relationship" has resurfaced, and concern about setting precedents that could plague U.S. negotiations with other developing countries has diminished. There is a growing sense in both public and private circles that Mexico is indeed a special case for the United States.

Allow me to make two concrete suggestions for improvement in U.S.-Mexican relations. First, establishment of a mechanism for the coordination of U.S. policy toward Mexico could be complemented by the formation of a U.S.-Mexico "Eminent Persons Group" that would meet informally but regularly over the next two years to analyze the major challenges confronting our two nations. In 1988, the U.S. and Mexico will elect new presidents. The goal of this group would be to present the two new administrations with a thoughtful analysis of the bilateral relationship that would substantially improve upon the current level of debate.

Second, in addition to improving our policymaking process, we need to enhance the prospects for dialogue between the successor generations of both our countries. One suggestion of relatively low cost but potentially very high benefit would be a substantial strengthening of the scholarly and cultural exchange between our two nations. The Mexican economic crisis has dealt a severe blow to that country's ability to send students to further their studies in the U.S. A significant increase in U.S. public and private funding for two-way flows of students between the U.S. and Mexico, and grants to U.S. studies programs in Mexico would be a significant contribution to our future relationship.

Conclusion

The U.S. and Mexico still face the prospect of a long, hot bilateral summer. Media attention and bilateral friction increase as crises deepen. Despite the fact that Mexico is a country of enormous potential, its immediate future is fraught with great difficulty. But like the hangman's noose, crises have an uncanny way of concentrating the mind. The U.S. must begin to concentrate its collective attention on its most important partner and neighbor in a way that reflects an informed understanding of the economic and political constraints that country is facing. Federal Reserve Chairman Volcker's statement before a House subcommittee on June 11, is a cogent reflection of just such an understanding: "The question here is the pace of the adjustments and the ability to manage those adjustments within a political context."

It is time for the U.S. to play it smart with Mexico. U.S. long-term interests in economic and political development in that country are best served not by ad hoc muddling and meddling, but by an enlightened, coordinated and far-sighted U.S. policy. Such a policy has long been recognized as necessary, has been repeatedly and unsuccessfully attempted, and has never been so critically important as it is today. Brinkmanship is a risky tactic. Without an adequate conception of both the problems and the prospects, both nations will be forever scrambling to extinguish successively larger bilateral fires.

It is not surprising that there are many divergent, as well as convergent, interests in two countries of such diverse cultural roots and asymetrical political, military and economic power, but we must not allow ourselves to be distracted from the broader interest each nation has in Mexico's sustained economic and political development. For the U.S., great power must be tempered by even greater tolerance and responsibility. Mexico should be at the top of the U.S. agenda not for sensationalist reasons, but because the health of the U.S. economy is inextricably linked to the health of the Mexican economy, and because the ramifications of neighborhood present our two countries with a myriad of both unavoidable challenges and tremendous opportunities.

Cathryn Thorup is the Director of the U.S.-Mexico Project of the Overseas Development Council (ODC). Established in 1979, the project is designed to provide a policy-oriented, Washington-based forum for the exchange of ideas among key actors in the bilateral relationship. Since its inception, the project has held eight binational meetings, established a network of contacts among academics, government officials and private sector leaders in Mexico and the United States; created an informal forum in Washington, D.C. for the discussion of key mutual problems and disseminated the results of its policy related research through publications, seminar programs and press conferences. The U.S.-Mexico Congressional Staff Workshop was created in 1986 to provide U.S. congressional staffers with timely analysis of key bilateral issues on the legislative agenda.

Ms. Thorup joined the project in 1980. Prior to that, she lived in Mexico for six years where, upon completion of a B.A. degree at El Colegio de Mexico, she carried out research for its studies program on the United States. She holds a Masters of Science degree in economic history from the London School of Economics and is a doctoral candidate in political science at Harvard University. She serves on the Board of Directors of The Consortium of U.S. Research Programs for Mexico (PROFMEX).

Ms. Thorup has written on conflict management in the bilateral relationship, on Mexico's attempts historically to diversify its foreign investments, on the Reagan administration and Mexico, on Latin American and African regional security arrangements, and on U.S. and Mexican policies toward Central America. Between 1980 and 1982, Ms. Thorup wrote regularly on international politics for the Mexican news magazine Razones. In the fall of 1986, a volume edited by Ms. Thorup entitled, The United States and Mexico: Face to Face With New Technology will be published as part of ODC's Policy Perspectives Series. Her publications have appeared in the Political Science Quarterly, Historia Mexicana, the New York Times, Dialogos, the Los Angeles Times, Foro Internacional and the Journal of Commerce. Ms. Thorup's academic awards include the Lincoln-Juarez Scholarship, a Harvard (CLAIS)/Tinker Field Research Grant and a fellowship from the Institute for the Study of World Politics.

RESULTS OF THE ELECTIONS FOR DEPUTIES IN MEXICO IN 1985

PUBLIC RESULTS PROVIDED BY THE FEDERAL ELECTION COMMISSION [COMICION FEDERAL ELECTORAL DE LA SECRETARIA DE GOBERNACION]	SECRET RESULTS FROM THE PRESIDENTIAL CHIEF OF STAFF OF THE MILITARY [ESTADO MAYOR PRESIDENCIAL DEL EJERCITO]	VOTE DIFFERENCE
PRI: 11,589,070 = 64.99%	PRI: 5,883,861 = 41.69%	5,705,209
PPS: 352,040 = 1.97%	PPS: 234,581 = 1.66%	117,459
PARM: 295,468 = 1.65%	PARM: 278,313 = 1.97%	17,155
PST: 437,148 = 2.45%	PST: 382,024 = 2.70%	55,124
SUBTOTALS: 12,673,726 = 71.10%	6,778,779 = 48.02%	5,894,947
PAN: 2,755,472 = 14.45%	PAN: 4,559,533 = 32.32%	1,804,061
PDM: 487,696 = 2.73%	PDM: 588,796 = 4.18%	101,100
SUBTOTAL: 3,243,168 = 18.19%	RIGHT:5,148,329 = 36.50%	1,905,161
PSUM: 578,081 = 3.24%	PSUM: 784,922 = 5.56%	206,841
PRT: 224,572 = 1.25%	PRT: 287,572 = 2.04%	63,000
PMT: 274,306 = 1.53%	PMT: 392,814 = 2.78%	118,508
SUBTOTAL: 1,076,959 = 6.04%	LEFT: 1,465,308 = 10.38%	388,349
BLANK: 11,922 = 0.06%	[CONTAINED IN ANNULLED]	
ANNULLED:824,752 = 4.62%	ANNULLED:718,898 = 5.09%	
TOTAL VOTES: 17.830,529 =100.00%	14,111,314 = 100.00%	
TOTAL VOTING: 50.54%	39.99%	
NOT VOTING: 17,447,840 = 49.45%	NOT VOTING: 21,167,055 = 60.01%	

PRESIDENTIAL ELECTION 1982

PUBLIC RESULTS PROVIDED BY THE FEDERAL ELECTION COMMISSION	SECRET RESULTS FOR THE PRESIDENTIAL CHIEF OF STAFF OF THE MILITARY
PRI: 16,145,254 = 68.70%	PRI: 8,731,000 = 37.52%
PPS: 360,565 = 1.52%	PPS: 298,000 = 1.28%
PARM: 242,187 = 1.02%	PARM: 228,000 = 0.98%
TOTALS: 16,748.006 = 71.24%	9,257,000 = 39.78%
OPPOSITION:	
PAN: 3,700,045 = 15.68%	PAN: 7,468,000 = 32.09%
PSUM: 821,995 = 3.48%	PSUM: 1,837,000 = 12.20%
PRT: 416,448 = 1.76%	PRT: 1,241,000 = 5.36%
PDM: 433,886 = 1.84%	PDM: 706,000 = 3.03%
PST: 342,005 = 1.45%	PST: 496,000 = 2.12%
PSD: 48,413 = 0.20%	PSD: 87,000 = 0.37%
TOTALS: 5,762,792 = 24.41%	12,833,000 = 55.14%
ANNULED: 1,053,616 = 4.46%	ANL: 1,176,000 = 5.05%
GRAND TOTAL: 23,592,888 = 100.00%	23,266,000 =100.00%
GOVERNMENTAL COALITION [PRI + PARM + PPS] 16,748,006 + 71.24%	9,257,000 = 39.78%
RIGHT OPPOSITION: 4,133,931 = 17.52%	8,174,000 = 35.12%
LEFT OPPOSITION [PSUM+PRT+PST+PSD] 1,628,861 = 6.89%	4,659,000 = 20.05%

(From the New York Times, Tuesday, June 17, 1986)

Mexico Deserves Full U.S. Attention

By Alfred Stepan

Events last week — the peso fell precipitously and Washington stepped in to try to help negotiate an emergency loan of some $5 billion — once again brought home the urgency of Mexico's economic crisis. The United States ought to be relieved that the crisis has as yet had almost no political repercussions, but this is no time to hide our heads in the sand.

For some weeks now, official Washington has been berating Mexico for the symptoms of its economic crisis — increases in drug traffic and illegal immigration. This is no help at all: Administration officials may have recognized this, for last week they spoke much less harshly than in the past. The emergency package will also be helpful in the short run, but it is not enough. We must begin to think more seriously about what we can do to help the Mexicans find new ways to shore up their faltering economic and political system.

From 1935 to 1981, the Mexican economy grew by some 6 percent a year. For the period from 1982 through 1986, Mexicans project zero growth — and they expect the minimum wage to fall to half of what it was before the crisis hit. The country's foreign debt is nearly $100 billion, and the Government is finding it impossible even to maintain interest payments. Oil revenues, which once generated 50 percent of the Government's revenue and 75 percent of its foreign exchange, have fallen by $6 billion, and political leaders are bracing for further economic deterioration.

We must plan aid that goes far beyond the bailout

So far, the political system has weathered the storm fairly well. The Institutional Revolutionary Party, known as the PRI, remains in control. Strikes, historically low by Latin American standards, are infrequent and largely nonviolent. There has been virtually no urban revolt — no food store sacking or bus burning — of the kind often seen in such crises.

How has the system held up? The PRI's political apparatus — for 60 years, the party has dominated Mexican politics through a combination of myths left over from the revolution and patronage politics — is working hard at damage control. Poor families receive a wide variety of subsidies equal to just about half the minimum wage per person. The exchange rate is now more than 600 pesos to the

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The problems it faces are grave for us

dollar, but the subway fare is only one peso. Beans, tortillas, domestic cooking fuel and other staples are heavily subsidized and widely available at state stores.

Yet even these mainstays of the political system are showing signs of increasing wear and tear. The subsidies are politically effective but extremely costly. The shrinkage of the Government's revenue base means that the PRI must either cut back further on patronage and subsidies or violate its agreements with the International Monetary Fund.

The economic, political and social perils facing the Mexicans are grave for them and grave for us. Yet few Administration officials seem to have any idea of just how serious. They worry about symptoms — drugs and migration — but not about the underlying disease. When they respond at all, it is with short-term emergency bailouts. Nor do they seem to understand why Mexico's crisis should matter to us: many see Mexico as merely a sideshow to the Central American conflict.

This is a serious mistake. Certainly — because of our capacity for mutual destruction — the Soviet Union is the No. 1 country in the world for us to pay attention to. But Mexico should be No. 2.

The fall in oil prices now makes Mexico the most imperiled of the large debtors. Five of the largest banks in the United States may have put as much as half of their primary capital at risk in loans to Mexico. This would be reason enough to worry, but the United States and Mexico have even deeper ties of geography and common destiny.

The United States-Mexican border is the most important frontier in the world between a rich market economy and a poor one. No other developed country is as intimately linked to the poor as we are. England and Japan are islands; Scandinavia has historically been a world apart; France, West Germany and the Benelux nations are not islands, but they are well insulated from the third world.

The United States is not insulated, but we have been lucky — and Mexico's long-term stability has been an extremely important part of this. Mexico and the United States are bound by intricate financial ties; Mexican-Americans are the second largest minority in the United States; and we share a virtually uncontrollable 2,000 mile border. Imagine, then, what it would mean if Mexico erupted in turmoil of the kind we have seen in El Salvador, Guatemala and Nicaragua. Imagine that chaos and violence, magnified a dozen times, on our very border.

The United States simply cannot afford to stand idly by and watch Mexico take a political turn for the worse.

There are things that we could be doing now that we might not be able to do later.

Militarizing the border is not the answer: that would be wildly irresponsible even if it were possible. But there is no shortage of constructive policies. In the short run, we could increase our purchases of Mexican oil — we might contract for a set amount at a fixed price to be delivered over the next year — and use it to replenish our strategic oil reserves. This would immediately relieve much of the threat of a Mexican default. In the medium run, we could lead rather than resist the voices in the developed world who urge an augmentation of World Bank and I.M.F. lending to countries like Mexico.

Finally, in the longer run, Mexico and the United States must sit down together and identify an extensive package of development projects that we could implement together to stave off the crisis that threatens us both. These should include shared water development and private sector investment projects. The United States might, for example, make a special point of promoting the Mexican cement industry. Our sharply different economic circumstances — the different mix of factors of production — would make such joint actions beneficial for both countries. Our shared destiny makes them imperative and extremely urgent.

A new generation of Mexican economists and politicians is exploring such projects more seriously than ever before. We should do likewise. Whether we like it or not, we too are living under the shadow of the Mexican crisis. With a modicum of imagination and will on both sides, a solution should be within our common reach. ☐

PREPARED STATEMENT OF GOVERNOR BRUCE BABBITT

Mr. Chairman, Senators, I thank you for this opportunity to speak before you today. I would like to note at the outset that although I chair a Council on Foreign Relations study group on U.S.-Mexican Relations, I testify today solely on my own behalf.

José de la Cruz Porfirio Díaz, the Mexican general and president, once said something you have probably heard quoted before. "Pobre Mexico," he said. "Tan lejos de Dios, y tan cerca a los Estados Unidos."[1]

But closeness is at least partly ... a state of mind. And the great paradox of Mexico is that in our minds it might as easily be 10,000 miles away.

Mexico City, somewhere along the line, found itself classified, in this town, along with Bangkok and Khartoum and other exotic capitals which merit modest seasonal attention and no more. In fact we spend a good deal less time thinking about Mexico than we do about a dozen second-order concerns.

We need a geography lesson. Mexicans and Americans share a 2,000 mile border on the North American continent. Mexico's land mass exceeds Western Europe's. Its population would fill three Canadas, four Central Americas. We are bound together, not only by proximity, but by commerce: Mexico is our third largest market, our third largest source of imports, our principal foreign supplier of oil. It is as important to our security as any nation in the world.

I look at this elemental significance and I see very little to reflect it on the Washington agenda. In one sense these hearings have changed that, but not always, I fear, for the better.

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[1] "Poor Mexico. So far from God, and so close to the United States."

Reagan Administration officials say they want to soothe Mexican hard feelings, feelings caused in no small part by statements made in this room. Here is how they go about it. Someone leaked to today's New York Times that an invitation will go out in the next few days for President Miguel de la Madrid to meet President Reagan in California. The official who leaked this -- an experienced diplomat, no doubt -- explains that dealing with the Mexicans "is like striking a porcupine. It is best done carefully."

* * *

More carefully than that, I hope, in today's negotiations. Gustavo Petricioli, the Mexican Finance Minister, is in town for discussions with James Baker, Paul Volcker and the managing director of the International Monetary Fund. It is a particularly delicate time.

The abrupt departure last week of Jesus Silva Herzog, Mr. Petricioli's predecessor, is still a puzzle. Was he a scapegoat for Mexico's economic travail? Or has he been hustled offstage, soon to reappear as the tapado, the candidate-designate for President in 1988?

Either way, Silva Herzog's departure marks the political transformation of the debt crisis in Mexico. For the first time, the debt will now collide with the Mexican presidential sexenio. That collision may prove explosive unless the debt gets some fundamental attention in Washington.

Every six years at this time, Mexican politics begin circling inward, with competing factions of the ruling PRI maneuvering to influence the presidential selection. For 1988, the debt looks like becoming the predominant populist issue. That is not likely to be a good thing.

In this country, the much-publicized emergence of the conservative PAN has created the impression that the PRI will have to move rightward to maintain its traditional monopoly on high office. It follows, or so it seems, that the debt issue can still be worked out in a leisurely, incremental way in the boardrooms of Mexico City and New York.

But Mexican politicians see it differently: the political instinct when under attack is to consolidate your base, and that means populist politics. Alan Garcia sells a lot better than Margaret Thatcher to the crowd assembled below the balcony.

The question, then, for the Administration, the Federal Reserve, and the IMF is whether the incremental debt adjustment currently under discussion can withstand the scorching heat of Mexican electoral politics. Or will it simply set the stage for crisis and repudiation in 1987 or 1988?

Until Silva-Herzog's departure, a familiar ritual of bluff and counter-bluff seemed certain to consumate in a another short-term fix: Mexico would get $6 billion or so in new loans to pay the interest on its old ones. That sort of arrangement is irrelevant to the burdens which have brought a vital neighbor to the brink of collapse. We need a much more basic solution.

Two goals should govern the American response, one conditional on the other: structural debt relief and structural economic reform. The IMF has been pushing a stunted version of this trade-off, attempting to condition new short-term loans on another notch or two of austerity. But in miniature the deal is poison to Mexico, having most of the political costs and few of the economic benefits of a full-sized solution.

Structural debt relief, the first half of the equation, must address the reality that Mexico's obligations have surpassed its capacity to play. Consider the share of gross domestic product which goes to debt service: at seven percent it is twice the peak figure imposed on Germany by the treaty of Versailles.

In Mexico now as Germany then, the danger lies in the unbottled resentment of the populace. After years of steady growth, the real income of the average Mexican plunged 50% in the four years following 1982. That kind of setback is calamatous for social and political stability. One hint of the threat came in the sustained booing of President Miguel de la Madrid at the World Cup -- an unprescendented humiliation for a Mexican head of state.

What's worse, the crisis looks indefinite. About a third of domestic savings have been diverted from vitally needed capital projects to service the $100 billion debt. Roads, harbors, airports, factories, houses and education are falling apart, with nothing in prospect to replace them. The industrial sector is starved for investment. Growth, the only cure for the long term, is at present a pipe dream: Mexico's economy will contract between three and five percent during 1986.

To meet any hope of growth, Mexico's burden of debt service should be halved. The precise means of doing this must be left to negotiation, but the possibilities are hardly unknown. They include extension of debt maturities, capitalization of interest and partial write-downs. Some creditor banks have begun experimenting with a secondary market for discounted debt, linked to a Mexican agreement to redeem it at par value in pesos for selective investment in Mexico. Moreover, not all debt need be treated exactly alike: surely the 30 percent of it owed to governments can be treated more flexibly than private sector debt. One possibility for the American government debt is to pay part of it by increasing our petroleum reserve.

The flip side of structural debt relief is structural economic reform. Thoughtful Mexicans recognize that their fiscal woes are also self-inflicted, the result of heavy-handed state intervention in every sector of the economy. The list of required reforms commands remarkable consensus among economists: sale or closure of loss-making state enterprises, reduction of the government work force, retargeting of investment from patronage to development, elimination of protectionist import restrictions and restrictions on foreign investment, relaxation of exchange controls, and repatriation of domestic capital.

If Mexico carries out the reforms it has thus far announced, it will have made a serious beginning. President de la Madrid has said, for example, that his country will enter the GATT. He has also promised to sell or close money-losing state enterprises. In May his government shut down Fundidora Monterrey, a huge and inefficient steel mill, throwing 11,000 people out of work. The sugar, fertilizer and petrochemical industries have candidates for similar closure.

Not all the reforms need be so painful. For example, one bank has proposed to help repatriate Mexican capital by creating an offshore mutual fund that could then bargain to reinvest the capital in selected Mexican development projects.

Thoroughgoing economic liberalization will nonetheless be exceptionally difficult, politically, for the Mexicans. Structural debt relief is likewise unpalatable to Mexico's creditors. The key to the deal is therefore linkage. As a whole it would benefit everyone: Mexico would finally see the light at the end of the tunnel, and its creditors would trade a diminution of paper assets for a much higher probabilty of actual payment.

What's missing from this equation is an initiating party. No one outside the government of the United States has both the clout and the interest in a grand solution. The times are urgent, the financial crisis is rapidly becoming a serious political crisis, and the necessary political leadership must now come from Washington.

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I would like to add a word or two at a more personal level. As governor of a border state I have worked closely and fruitfully over the years with my counterparts in Mexico and with their seniors, including the President of the Republic. They are honorable people. They have exerted themselves, in trying times, to be good neighbors and responsible leaders.

Mr. Chairman, I cannot imagine what has been gained by maligning their integrity. I cannot imagine what has impelled the use of this forum for ungrounded charges of criminal behavior and for sweeping accusations -- on undisclosed evidence -- of electoral fraud on a scale which bears on the legitimacy of the Mexican government. I feel compelled to say, Mr. Chairman, that these hearings have had a profoundly destructive influence on the mutual relationship at just the time was greatest care is required. An attack on Mexico now, when it is suffering the most painful contractions of its history, is uncomfortably like kicking an injured man for bleeding on your carpet.

There remains, in these hearings, an opportunity. The interlocking concerns of our bilateral relationship have not had an adequate airing. There is room, in Congress and the White House and the press, for creative and constructive efforts at solving our common problems together. This subcommittee can and should be a focus of such efforts.

Don't kick at Mexico. Let's offer it a hand.

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